

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants in the Tax Certificate and Compliance Agreement to be executed and delivered by the Issuer on the date of delivery of the Series 2010 Bonds, and subject to the conditions stated herein under "Tax Matters," under existing law, (a) the interest on the Series 2010 Bonds is excludable from gross income for Federal income tax purposes, and (b) the interest on the Series 2010 Bonds is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; and is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. As described herein under "Tax Matters," other Federal income tax consequences may arise from ownership of the Series 2010 Bonds. It is also the opinion of Bond Counsel that, under existing law of the State of Maryland, the interest on the Series 2010 Bonds and profit realized from the sale or exchange of the Series 2010 Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2010 Bonds or the interest thereon. See "Tax Matters" herein."

\$ 27,370,000

**GENERAL OBLIGATION BONDS, SERIES 2010
MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND**

Dated: December 22, 2010**Principal Due:** June 1, 2012/2031

The \$27,370,000 General Obligation Bonds, Series 2010 (the "Series 2010 Bonds") of the Mayor and Council of Rockville (the "Issuer") are issued pursuant to the authority of Article 23A of the Annotated Code of Maryland (2005 Replacement Volume and 2010 Supplement), as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with an ordinance enacted by the Issuer on November 15, 2010 authorizing the issuance of the Series 2010 Bonds (the "Ordinance") to finance capital, water and sewer projects, and to pay the costs of issuing the Series 2010 Bonds. The Series 2010 Bonds are general obligations of the Issuer, backed by its full faith, credit and unlimited taxing powers.

The Series 2010 Bonds will be issued as fully registered bonds without coupons and, when issued will be in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series 2010 Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2010 Bonds purchased. Principal of the Series 2010 Bonds, payable annually on each June 1 and interest on the Series 2010 Bonds, payable on each June 1 and December 1 commencing June 1, 2011, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Series 2010 Bonds as described herein. The Series 2010 Bonds will mature on June 1 in the years and amounts as follows:

MATURITY SCHEDULE

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2012	\$ 1,580,000	2.000%	0.520%	774217 2A0	2022	\$ 1,165,000	3.000%	3.100%	774217 2L6
2013	1,580,000	2.000%	0.780%	774217 2B8	2023	1,165,000	3.250%	3.270%	774217 2M4
2014	1,580,000	3.000%	1.070%	774217 2C6	2024	1,160,000	3.375%	3.390%	774217 2N2
2015	1,580,000	3.000%	1.300%	774217 2D4	2025	1,160,000	3.500%	3.520%	774217 2P7
2016	1,575,000	3.000%	1.530%	774217 2E2	2026	1,160,000	3.625%	3.640%	774217 2Q5
2017	1,575,000	3.000%	1.880%	774217 2F9	2027	1,160,000	3.700%	3.740%	774217 2R3
2018	1,575,000	3.000%	2.230%	774217 2G7	2028	1,160,000	3.800%	3.840%	774217 2S1
2019	1,575,000	3.000%	2.530%	774217 2H5	2029	1,160,000	4.000%	3.970%	774217 2T9
2020	1,570,000	3.000%	2.750%	774217 2J1	2030	1,160,000	4.000%	4.030%	774217 2U6
2021	1,570,000	3.000%	2.970%	774217 2K8	2031	1,160,000	4.100%	4.120%	774217 2V4

The Series 2010 Bonds maturing in the years June 1, 2021, and thereafter are subject to prior redemption on June 1, 2020, at a price of par plus accrued interest to the date of redemption.

BANK QUALIFIED:

The Series 2010 Bonds will be designated as "Qualified Tax-Exempt Obligations."

LEGAL OPINION:

Venable LLP, Baltimore, Maryland

An account group managed by **UBS Financial Services, Inc.** has agreed to purchase the \$27,370,000 General Obligation Bonds, Series 2010, from the Mayor and Council, City of Rockville, Maryland, for an aggregate price of \$27,933,383.95. Delivery of the Series 2010 Bonds is currently anticipated to be on or about December 22, 2010.

The date of this Official Statement is December 6, 2010.

(THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.)

UBS FINANCIAL SERVICES, INC.

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants in the Tax Certificate and Compliance Agreement to be executed and delivered by the Issuer on the date of delivery of the Series 2011 Bonds, and subject to the conditions stated herein under "Tax Matters," under existing law, (a) the interest on the Series 2011 Bonds is excludable from gross income for Federal income tax purposes, and (b) the interest on the Series 2011 Bonds is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. As described herein under "Tax Matters," other Federal income tax consequences may arise from ownership of the Series 2011 Bonds. It is also the opinion of Bond Counsel that, under existing law of the State of Maryland, the interest on the Series 2011 Bonds and profit realized from the sale or exchange of the Series 2011 Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2011 Bonds or the interest thereon. See "Tax Matters" herein."

\$ 3,040,000

**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2011
MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND**

Dated: January 5, 2011**Principal Due:** March 15, 2012/2021

The \$3,040,000 General Obligation Refunding Bonds, Series 2011 (the "Series 2011 Bonds") of the Mayor and Council of Rockville (the "Issuer") are issued pursuant to the authority of Article 23A of the Annotated Code of Maryland (2005 Replacement Volume and 2010 Supplement), as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with an ordinance enacted by the Issuer on November 15, 2010 authorizing the issuance of the Series 2011 Bonds (the "Ordinance") for the purpose of current refunding the 2012 through 2021 maturities of the Issuer's outstanding \$6,100,000 General Obligation Bonds of 2001, dated August 1, 2001 and to pay the costs of issuance of the Series 2011 Bonds. The Series 2011 Bonds are general obligations of the Issuer, backed by its full faith, credit and unlimited taxing powers.

The Series 2011 Bonds will be issued as fully registered bonds without coupons and, when issued will be in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series 2011 Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2011 Bonds purchased. Principal of the Series 2011 Bonds, payable annually on each March 15 and interest on the Series 2011 Bonds, payable on each March 15 and September 15 commencing September 15, 2011, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Series 2011 Bonds as described herein. The Series 2011 Bonds will mature on March 15 in the years and amounts as follows:

MATURITY SCHEDULE

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>774217</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>774217</u>
2012	\$ 320,000	2.000%	0.570%	2 W2	2017	\$ 300,000	3.000%	1.950%	3 B7
2013	320,000	2.000%	0.800%	2 X0	2018	300,000	3.000%	2.270%	3 C5
2014	320,000	2.000%	1.110%	2 Y8	2019	290,000	3.000%	2.550%	3 D3
2015	320,000	2.000%	1.360%	2 Z5	2020	285,000	3.000%	2.800%	3 E1
2016	305,000	2.000%	1.580%	3 A9	2021	280,000	3.000%	3.000%	3 F8

The Series 2011 Bonds are not subject to redemption prior to their stated maturity date.

BANK QUALIFIED:

The Series 2011 Bonds are "Qualified Tax-Exempt Obligations" within the meaning of Section 265(b)(3) of the Code.

LEGAL OPINION:

Venable LLP, Baltimore, Maryland

Incipital LLC has agreed to purchase the \$3,040,000 General Obligation Refunding Bonds, Series 2011, from the Mayor and Council, City of Rockville, Maryland, for an aggregate price of \$3,116,725.96. Delivery of the Series 2011 Bonds is currently anticipated to be on or about January 5, 2011.

The date of this Official Statement is December 6, 2010.

(THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.)



No dealer, broker, salesman or other person has been authorized by the Issuer or the Financial Advisor to give any information or to make any representations, other than those contained in this Official Statement or the Final Official Statement and, if given or made, such other information and representations must not be relied upon as having been authorized by the Issuer or the Financial Advisor. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Obligations by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable, but it is not to be construed as a representation by the Financial Advisor. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or the Final Official Statement nor any sale made thereafter shall, under any circumstances create any implication that there has been no change in the affairs of the Issuer or in any other information contained herein, since the date thereof.

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INTRODUCTION TO THE OFFICIAL STATEMENT

Series 2010 Bonds

The following information is furnished solely to provide limited introductory information regarding the \$27,370,000 General Obligation Bonds, Series 2010 (the "Series 2010 Bonds") of the Mayor and Council of Rockville, Maryland (the "Issuer") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	Mayor and Council of Rockville, Maryland						
Purpose:	The proceeds of the Series 2010 Bonds will be used to finance capital, water and sewer projects, and to pay the costs of issuing the Series 2010 Bonds.						
Security:	The Series 2010 Bonds are general obligations of the Issuer, and taxable property in the territory of the City of Rockville is subject to ad valorem taxes without limitation as to rate or amount to pay the Series 2010 Bonds.						
Authority for Issuance:	The Series 2010 Bonds are issued pursuant to ordinances of the Issuer and pursuant to and in full compliance with the Constitution and laws of the State of Maryland.						
Principal Payments:	Payable on June 1 of the years 2012 through 2031.						
Interest Payments:	Payable on June 1 and December 1, commencing June 1, 2011.						
Optional Redemption:	The Series 2010 Bonds maturing in the years June 1, 2021 and thereafter are subject to prior redemption on June 1, 2020 at a price of par plus accrued interest to the date of redemption.						
Tax Status:	Generally exempt from federal and Maryland state income taxes (see "Tax Matters" herein).						
Book-Entry System:	The Series 2010 Bonds will be issued as book-entry only securities through The Depository Trust Company.						
Professional Consultants:	<table><tr><td><i>Financial Advisor:</i></td><td>Public Financial Management, Inc. Minneapolis, Minnesota</td></tr><tr><td><i>Bond Counsel:</i></td><td>Venable LLP Baltimore, Maryland</td></tr><tr><td><i>Registrar/Paying Agent:</i></td><td>Chief Financial Officer City of Rockville, Maryland</td></tr></table>	<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota	<i>Bond Counsel:</i>	Venable LLP Baltimore, Maryland	<i>Registrar/Paying Agent:</i>	Chief Financial Officer City of Rockville, Maryland
<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota						
<i>Bond Counsel:</i>	Venable LLP Baltimore, Maryland						
<i>Registrar/Paying Agent:</i>	Chief Financial Officer City of Rockville, Maryland						

Questions regarding the Series 2010 Bonds or the Official Statement can be directed to and additional copies of the Official Statement, the Issuer's audited financial reports and the Ordinance may be obtained from Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402 (612/338-3535 612/338-7264 FAX), the Issuer's Financial Advisor, or inquiries may be directed to Mr. Gavin Cohen, Chief Financial Officer, City of Rockville, 111 Maryland Avenue, Rockville, Maryland 20850, or by telephoning (240) 314-8402.

Series 2011 Bonds

The following information is furnished solely to provide limited introductory information regarding the \$3,040,000 General Obligation Refunding Bonds, Series 2011 (the "Series 2011 Bonds") of the Mayor and Council of Rockville, Maryland (the "Issuer") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	Mayor and Council of Rockville, Maryland						
Purpose:	The proceeds of the Series 2011 Bonds will be used for the purpose of current refunding the 2012 through 2021 maturities of the Issuer's outstanding \$6,100,000 General Obligation Bonds of 2001, dated August 1, 2001 and to pay the costs of issuance of the Series 2011 Bonds.						
Security:	The Series 2011 Bonds are general obligations of the Issuer, and taxable property in the territory of the City of Rockville is subject to ad valorem taxes without limitation as to rate or amount to pay the Series 2011 Bonds.						
Authority for Issuance:	The Series 2011 Bonds are issued pursuant to ordinances of the Issuer and pursuant to and in full compliance with the Constitution and laws of the State of Maryland.						
Principal Payments:	Payable on March 15 of the years 2012 through 2021.						
Interest Payments:	Payable on March 15 and September 15, commencing September 15, 2011.						
No Optional Redemption:	The Series 2011 Bonds are <u>not</u> subject to redemption prior to their stated maturity date.						
Tax Status:	Generally exempt from federal and Maryland state income taxes (see "Tax Matters" herein).						
Book-Entry System:	The Series 2011 Bonds will be issued as book-entry only securities through The Depository Trust Company.						
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Questions regarding the Series 2011 Bonds or the Official Statement can be directed to and additional copies of the Official Statement, the Issuer's audited financial reports and the Ordinance may be obtained from Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402 (612/338-3535 612/338-7264 FAX), the Issuer's Financial Advisor, or inquiries may be directed to Mr. Gavin Cohen, Chief Financial Officer, City of Rockville, 111 Maryland Avenue, Rockville, Maryland 20850, or by telephoning (240) 314-8402.

DESCRIPTION OF THE SERIES 2010 BONDS

Authorization

The Series 2010 Bonds are issued under and in full compliance with the Constitution and laws of the State of Maryland, including Article 23A of the Annotated Code of Maryland, as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with an ordinance enacted by the Issuer on November 15, 2010, authorizing the issuance of the Series 2010 Bonds.

Purpose

The Series 2010 Bonds are issued to provide funds to finance (i) all or a portion of the costs of or related to: (A) Asphalt Repair and Replacement Projects, (B) Gude Drive Facility Improvement, (C) Senior Center Improvements, (D) Police Station, (E) Water System Facility Improvement, (F) Water Main Rehabilitation, (G) Blue Plains Wastewater Treatment, (H) Sewer Rehabilitation, and (ii) pay the costs of issuing the Bonds. Those projects and the estimated costs are listed in Table 1 below.

Table 1
Estimated Sources and Uses of Funds

Sources:

Par Amount of Bonds	\$ 27,370,000
Premium	<u>663,284</u>
Total Sources of Funds	<u><u>\$ 28,033,284</u></u>

Uses:

Asphalt Repair and Replacement	\$ 4,241,000
Gude Drive Facility Improvement	4,700,000
Senior Center Improvements	1,000,000
Police Station	8,000,000
Water System Facility Improvement	1,272,000
Water Main Rehabilitation	3,269,000
Blue Plains Wastewater Treatment	4,827,000
Sewer Rehabilitation	503,000
Costs of Issuance/ Underwriter's Discount	217,125
Contingency	<u>4,159</u>
Total Uses of Funds	<u><u>\$ 28,033,284</u></u>

Optional Redemption

At the option of the Issuer, Series 2010 Bonds or portions thereof maturing on June 1, 2021, and thereafter may be called for redemption and payment prior to the stated maturity thereof on June 1, 2020, and at any time thereafter in whole or in part in such amounts for such stated maturities as shall be determined by the Issuer at the redemption price of 100% of the principal amount thereof plus accrued interest thereon to the redemption date. The Series 2010 Bonds may be called in part in one or more units of \$5,000. If less than the entire principal amount of any Series 2010 Bonds in a denomination of more than \$5,000 is to be redeemed, the Bond Registrar will issue and deliver to the registered owner thereof, upon surrender of such original Bond, a new Bond or Bonds, in any authorized denomination, in a total aggregate principal amount equal to the unredeemed balance of the original Series A Bond. Notice of such redemption as aforesaid identifying the Series A Bond or Bonds (or portion thereof) to be redeemed shall be mailed first class to the registered owners thereof at the addresses shown on the Issuer's registration books not less than 30 days prior to such redemption date. All Series 2010 Bonds for which the Issuer exercises the right

of redemption and for which proper notice has been given and adequate funds provided, shall cease to bear interest on the redemption date.

Interest Computation

Interest on the Series 2010 Bonds will be payable on June 1 and December 1 of each year commencing June 1, 2011. It will be computed on a 360-day year, 30-day month basis and paid to the owners of record as of the close of business on the fifteenth day of the immediately preceding month. Payments coming due on a non-business day will be paid the following business day.

DESCRIPTION OF THE SERIES 2011 BONDS

Authorization

The Series 2011 Bonds are issued under and in full compliance with the Constitution and laws of the State of Maryland, including Article 23A of the Annotated Code of Maryland, as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with an ordinance enacted by the Issuer on November 15, 2010, authorizing the issuance of the Series 2011 Bonds.

Purpose

The Series 2011 Bonds are issued to proceeds of the Bonds will be used to current refund the 2012 through 2021 maturities of the Issuer's outstanding \$6,100,000 General Obligation Bonds of 2001 dated August 1, 2001, as described in Table 2 below (the "Refunded Bonds"), and to pay the costs of issuance of the Series 2011 Bonds.

Table 2
Refunded Bonds

<u>Dated</u>	<u>Type of Bond</u>	<u>Maturities Refunded</u>	<u>Amount Refunded</u>	<u>Call Date</u>	<u>Call Price</u>
08/01/01	General Obligation Bonds	2012 – 2021	\$3,050,000	03/15/11	100

The Issuer upon closing will pay and redeem the outstanding principal of the Refunded Bonds on the call date of March 15, 2011.

An estimated sources and uses of funds for the Series 2011 Bonds is listed in Table 3 below.

Table 3
Estimated Sources and Uses of Funds

Sources:

Par Amount of Bonds	\$ 3,040,000
Premium	<u>84,270</u>
Total Sources of Funds	<u>\$ 3,124,270</u>

Uses:

Current Refunding Escrow Fund	\$ 3,050,000
Costs of Issuance/ Underwriter's Discount	72,044
Contingency	<u>2,226</u>
Total Uses of Funds	<u>\$ 3,124,270</u>

Optional Redemption

The Series 2011 Bonds are not subject to redemption prior to their stated maturity date.

Interest Computation

Interest on the Series 2011 Bonds will be payable on March 15 and September 15 of each year commencing September 15, 2011. It will be computed on a 360-day year, 30-day month basis and paid to the owners of record as of the close of business on the fifteenth day of the immediately preceding month. Payments coming due on a non-business day will be paid the following business day.

DESCRIPTION OF THE OBLIGATIONS

Security

The Obligations and interest thereon will constitute general obligations of the Issuer payable as to both principal and interest from ad valorem taxes which may be levied without limitation as to rate or amount upon all the taxable tangible property, real and personal, within the territorial limits of the City of Rockville (the “City”).

Book-Entry Only System

The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a schedule prepared by Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

The Depository Trust Company (“DTC”), New York, NY will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity specified on the cover page hereof in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”).

DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers ownership interest in the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discounted.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. if less than all of the Obligations within an issue are being redeemed. (DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.)

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of, redemption premium, if any, and interest payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Paying Agent, on payable date in accordance with their respective holding shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, Paying Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Paying Agent, disbursement of such payments to Direct Participants will be responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Obligations at any time by giving reasonable notice to Issuer or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

NEITHER THE ISSUER NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR

REQUIRED TO BE GIVEN TO THE OWNERS OF THE OBLIGATIONS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE OBLIGATIONS OF A SERIES; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OBLIGATIONS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF OBLIGATIONS; OR (VI) ANY OTHER MATTER.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Continuing Disclosure

In order to permit bidders for the Obligations and other participating underwriters in the primary offering of the Obligations to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), the Issuer will adopt, for the benefit of the registered holders or beneficial owners of the Obligations, an undertaking to provide annual reports of specified information and notice of the occurrence of certain events, if material. The information to be provided on an annual basis, the events as to which notice is to be given, if material, and a summary of other provisions of the undertaking, including termination, amendment and remedies, are set forth in Appendix C to this Official Statement.

Breach of the undertaking will not constitute a default or an event of default under the Obligations or under the ordinances adopted by the Issuer authorizing any series of the Obligations. The Issuer is in full compliance with all of its prior 15c2-12 obligations.

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THE CITY OF ROCKVILLE

General Information

The following information is provided for the purpose of presenting certain information relating to the City of Rockville (the “City”), Maryland (the “State”). Except as otherwise stated, the information is provided as of June 30, 2010.

Rockville, the County seat of Montgomery County, occupies 13.50 square miles within the Metropolitan Washington Area and is located 12 miles northwest of Washington, D.C. The City lies within four miles of I-495, the Capital Beltway, and is traversed by I-270. The topography is rolling with small hills. Average altitude of the area is 400 feet above sea level.

Rockville was first settled in the late 1700s, chosen as the County seat in 1776, and officially designated as Rockville by the Maryland General Assembly in 1801. The name was derived from Rock Creek, which runs past the eastern boundary of the city. Rockville was incorporated in 1860. The Confederate Monument in Rockville commemorates the days when General Jubal Early's forces passed through Rockville to and from an attack on Washington D.C.

Rockville is both a residential community and an employment and economic center. Rockville experienced its greatest growth after World War II. The population grew from 2,047 to 6,934 between 1940 and 1950 and to 26,090 by 1960. During the 1960s Rockville shared in the rapid population growth experienced in the entire Washington, D.C. Metropolitan Statistical Area (MSA). In 1970 Rockville's population was 42,739, an increase of 64 percent over 1960. Population growth moderated during the 1970s. According to the 2000 figures from the U.S. Bureau of the Census, the City's population was 47,388. The City of Rockville Planning Department estimates the 2010 population of the City is 62,476.

Rockville has been designated an “All-America City” four times.

Government and Organization of the City

The City of Rockville derives its governing authority from a charter granted by the General Assembly of Maryland. The City has operated under the Council-Manager form of government since 1948. The governing body of the City is the Mayor and Council, which formulates policies for the administration of the City. The Mayor and Council are comprised of the Mayor and four council members each elected at large for two year concurrent terms. Mayor and Council members and their terms of office are:

Mayor and Council Members

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phyllis Marcuccio	Mayor	2011
John B. Britton	Council Member	2011
Piotr Gajewski	Council Member	2011
Mark Pierzchala	Council Member	2011
Bridget Donnell Newton	Council Member	2011

The City Manager is appointed by the Mayor and Council to serve as the City's Chief Executive Officer. He is responsible to the Mayor and Council for the proper administration of all affairs of the City. To this end, he has appointive and removal authority over department heads and all other employees, except the City Clerk and the City Attorney, is responsible for the preparation and administration of the annual budget, for keeping the Mayor and Council apprised of the financial condition and future needs of the City by way of an annual report to the Mayor and Council, recommending and enforcing all policies and procedures laws and ordinances as established by the Mayor and Council, consolidating or reorganizing positions, departments or divisions as needed, purchasing all materials, supplies and equipment pursuant to purchasing regulations, and investigating any and all complaints and affairs

concerning the administration of the government and the utilities service provided. Financial operations of the City are performed by the Finance Department under the supervision of the Chief Financial Officer, who reports directly to the City Manager.

Mayor and Council Members

Phyllis Marcuccio was elected to her first term as Mayor in November 2009. She is the former president of the East Rockville Civic Association, and she has served two terms on the City Council prior to being elected mayor. Phyllis has always been available to her neighborhood and community. She has been the science curriculum consultant to several local area school systems, including the Montgomery County Public School System. She helped to found the Rockville Consortium for Science and remains active in Rockville's Annual Science Day. Phyllis served on the Rockville Housing Authority for 10 years and was part of the Croydon Park Advisory Board and Review Committee. As president of the East Rockville Civic Association, she was instrumental in having an East Rockville Park. She helped in the mission to establish Mary Trumbo Park, which serves as a memorial site for a community member who was struck by a car on Rockville Pike in 2001. She also helped to spearhead the establishment of a neighborhood plan to ensure that East Rockville was considered in Town Center master planning. For 38 years, Phyllis worked for the National Science Teachers Association (NSTA), and established her as a national leader and innovator in childhood education. Among educators, she may have been best known for being one of the founders and editors of *Science and Children* magazine. She has written, edited and published journals, books and articles used by teachers at every level from kindergarten through college. While at NSTA, she was involved in directing almost all of the major departments including publications, membership, marketing, sales, customer service and computers. She also was the project director and/or judge for numerous grants (totaling more than \$30 million) and awards. Her periodicals have earned her the title of recipient of the Eleanor Fishburn and Educational Press award. Phyllis was known as a teacher of teachers, a presenter at science teacher conferences and a mentor for more than 50 NSTA staff. She was on the boards of several associations including the National Academy of Sciences Smithsonian Institution; the Pocono Environmental Education Center; and Rockville Hands-On-Science Outreach, Inc. She is known for her open-door policy, her ability to listen, and her efforts to find creative ways to get any job done.

John Britton was elected to serve his second term as a Rockville Councilmember in November 2009. He attended Rider College (now Rider University) in Lawrenceville, N.J., where he earned a Bachelor of Arts degree in Political Science and International Studies. In 1977, he enrolled in the George Washington University School of Public and International Affairs, earning a Master of Arts degree in International and Russian Studies. Shortly after earning his Masters degree, John worked for the Close Up Foundation, a civic education program for high school students, as a program instructor and student counselor. (He currently represents the Foundation in all legal matters as its General Counsel). In 1986 he enrolled in the law program at the National Law Center, George Washington University, where he received his Juris Doctor, with honors, in 1989. John is a practicing attorney with a focus on environmental and land use issues. He represents public interest organizations, community groups and municipalities, such as Environment Maryland and the City of Alexandria, Virginia. He also is the managing partner of the Washington, D.C. office of Schnader Harrison Segal & Lewis LLP. His past experience includes his tenures on the Rockville Cultural Art Commission and the Planning Commission where he served as a commissioner and a chairman. Mr. Britton brings his environmental experience to Rockville by working toward increasing environmentally sustainable, i.e., "green" development.

Piotr Gajewski was elected to serve his second term as a Rockville Council member in November 2009. In his professional life, Piotr is Music Director and Conductor of the National Philharmonic, in residence at the Music Center in Strathmore. Praised by the Washington Post as an "immensely talented insightful conductor," whose "standards, taste and sensitivity are impeccable," Maestro Gajewski is also much in demand nationally and internationally as a guest conductor. In recent years, he has appeared with most of the major orchestras in his native Poland, as well as the Royal Liverpool Philharmonic in England, the Karlovy Vary Symphony in the Czech Republic, the Okanagan Symphony in Canada, and numerous orchestras in the United States. Gajewski is a winner of many prizes and awards, among them a prize at New York's prestigious Leopold Stokowski Conducting Competition, Montgomery County's Comcast Excellence in the Arts and Humanities Achievement Award, and a Leonard Bernstein Fellowship at the Tanglewood Festival in Massachusetts where Gajewski studied with Bernstein as well as other prominent conductors, including Siji Ozawa and Andre Previn. Mr. Gajewski holds a Bachelor of

Music and Masters of Music degrees from the University of Cincinnati, College-Conservatory of Music and a JD degree from Catholic University of America, Columbus School of Law.

Mark Pierzchala was elected to his first term on the City Council in November 2009. He is a statistician and systems analyst who works on major federal government surveys, mostly in the field of data collection. He has 26 years of experience through positions with the National Agricultural Statistics Service (USDA), Westat, and Mathematica Policy Research, Inc. He now has his own company MMP Survey Services, LLC. Mark is married to Lesley Cross. They met in Swaziland, Southern Africa when Mark was with the U.S. Peace Corps and Lesley was working for the International Voluntary Service (IVS). They now live in College Gardens. They have two daughters, one of whom is a sophomore at Indiana University while the other is a junior at Richard Montgomery High School. He was president of the College Gardens Civic Association from 2004 to 2008 and its secretary from 2000 to 2002. In late 2008, he was elected president of the Town Center Action Team (TCAT), a position he held until his election to Rockville's City Council in November 2009. Mark ran for office on a platform of budget discipline. He is also a neighborhood advocate and a strong environmentalist. He believes that ecologists and economists must work together towards long-term human sustainability. The Pierzchala/Cross household has 4 rain barrels, a rain garden, and their lot is a National Wildlife Habitat. Mark is a year-round cyclist and walker who often uses these means to traverse our fair City. He taught himself to ride a unicycle in 2007, and in his spare time tackles the Washington Post Magazine Sunday crossword puzzles. He was the official first visitor to the Newseum in Washington, DC in April 2008.

Bridget Donnell Newton was elected to her first term on the City Council in November 2009. Newton garnered the most votes cast for any candidate, and was the only councilmember elected in each of Rockville's 10 voting districts. A resident of Rockville since 1981, Newton brings a passion for Rockville's neighborhoods, community involvement and consensus building among all stakeholders. Elected in June to the Maryland Municipal League's Legislative Affairs Committee, Newton will continue her efforts of working with other elected officials to ensure that Rockville and other municipalities receive parity in State and County budget talks, school funding and environmental reform decisions. Born in New Haven, Connecticut, Newton grew up in West Carrollton, Ohio and Beaver Falls, Pennsylvania. Elected President of her Class, she graduated from Ohio Wesleyan University in 1980 with a Bachelor of Arts degree and a double major in History and Politics and Government. During a period of severe budget cuts at the University, Newton helped forge a bridge between the administration and students and was able to foster improved relationships and communication. Upon graduation, she moved to Alexandria, Virginia where she worked on Capitol Hill and then as a Project Manager for a consulting firm.

Senior City Staff

Scott Ullery started as City Manager of the City of Rockville on November 29, 2004. He has 31 years of government experience. He served as Deputy County Administrator in Santa Barbara County from 1997 to 2004. His responsibilities in Santa Barbara County focused primarily on strategic planning, capital improvement planning, information technology, annexations, project management and economic development. Prior to his work in Santa Barbara, Mr. Ullery spent 18 years with the City of Tucson. He was the Assistant City Manager of Tucson from 1994 to 1997 and was the assistant to the city manager from 1992 to 1994. He held several responsible positions prior to that in the Department of Budget and Research. Mr. Ullery received his Bachelor of Arts from the University of Arizona.

Gavin Cohen joined the City of Rockville as Director of Finance in May 2005. He currently serves as the City's Chief Financial Officer. He previously served as the Finance Director for the City of Solana Beach in San Diego County, California from 1999 through 2005 and the Assistant Finance Director for the City of Glendora in Los Angeles County California from 1996 through 1999. Prior to this he was a controller and auditor in private industry. Mr. Cohen has a Bachelor of Commerce degree from the University of Cape Town. He is a Certified Public Accountant, Certified Management Accountant, and Certified Public Finance Officer. Mr. Cohen is a member of several professional organizations including American Institute of Certified Public Accountants, Association of Public Treasuries of the United States and Canada, Institute of Certified Management Accountants and the national and local Government Finance Officers Associations. He currently serves on the GFOA national committee on Retirement and Benefits Administration.

Debra Yerg Daniel has served as the City Attorney for the City of Rockville since February 2009. Prior to coming to Rockville, she was an Associate General Counsel with the Maryland-National Capital Park and Planning Commission from 1995 to 2009. At the Commission, Ms. Daniel served as lead counsel to the Montgomery County Planning Board and the Montgomery County Planning Department and served as supervising attorney for the General Counsel's Montgomery County Land Use Team. Prior to her tenure with the Commission, Ms. Daniel worked as an associate with a professional malpractice defense firm in Baltimore and clerked for the Honorable Graydon S. McKee, III, in the Circuit Court for Prince George's County, Maryland. Ms. Daniel is a member of the Maryland and Montgomery County Bar Associations as well as the International Municipal Lawyers Association and the Maryland Municipal Attorneys Association. She holds a Bachelor of Arts degree from the University of Maryland and a Juris Doctor with honors from the George Washington University.

Burton R. Hall has served as Director of Recreation and Parks since April 1992. His career with the City of Rockville began in 1974 at the Municipal Swim Center where he was the Aquatics Supervisor and Swim Center Director. He was appointed Superintendent of Recreation in 1983. Mr. Hall holds a Bachelor of Science degree from Amherst College and is a Certified Leisure Professional. He is a member of, and has served in various volunteer capacities with, the Maryland Recreation and Parks Association and the National Recreation and Parks Association.

Craig Simoneau has served as the Director of Public Works for the City of Rockville since September 2005. Prior to coming to Rockville, he served as Director of Public Works and Logistics at Fort Monroe, VA. Mr. Simoneau was in the U.S. Army for 20 years. During his years in the U.S. Army, he held management positions for construction project design, facility operations and project design. Mr. Simoneau is a Licensed Professional Engineer. He is a West Point graduate, and has a Master of Science degree in Civil Engineering from Massachusetts Institute of Technology.

Susan Swift has served as the Director of Community Planning and Development Services (CPDS) for the City of Rockville since April 2008. CPDS includes Planning, Long-Range Planning, Inspection Services, the Moderately Priced Dwelling Unit Program, and the Community Development Block Grant program. Prior to coming to Rockville, she served as the Director of Planning, Zoning and Development for the Town of Leesburg, Va. for five years. She has over 30 years experience with urban planning and zoning, community development and management in both public and private sectors. Ms. Swift holds a Bachelor of Arts degree in Geography from the University of Florida and a Masters in Urban and Regional Planning, from Florida State University. In addition, she is certified by the American Institute of Certified Planners.

Terry Treschuk has been involved in municipal Government for over thirty-eight years and has been the Chief of Police in Rockville since 1989. Chief Treschuk received his Bachelor of Science Degree in Criminal Justice Administration from the University of New Haven in West Haven, Connecticut in 1976. In 1977, he received a Master of Science Degree in Criminal Justice Administration from American International College in Springfield, Massachusetts. He is also a Graduate of Babson College School for Police Administrations, Wellesley, Massachusetts, and the 114th Session of the Federal Bureau of Investigation National Academy, Quantico, Virginia. Chief Treschuk began his law enforcement career as a police officer in the town of Glastonbury, Connecticut in 1973, reaching the rank of Police Lieutenant. In 1983 he was appointed Chief of Police for the Town of Granby, Connecticut, and served in that capacity until coming to Rockville. He was awarded Police Officer of the Year: Town of Glastonbury in 1976, Jaycees' Outstanding Young Man Award in 1984, Montgomery County Chapter of MADD's Leadership Award in 1990, the Benevolent Order of Elks Distinguished Citizen Award in 1997, the Paul Harris Fellow by the Rockville Rotary Club, also in 1997. In 1998, the Rockville Chamber of Commerce recognized him as the Rockville Citizen of the year.

Carlos A. Vargas has been Rockville's Chief Human Resources Officer since June of 2007. Prior to that, Mr. Vargas served as Division Manager of Management Services for the Montgomery County government, where he directed Labor and Employee Relations, Recruitment and Selection, and Classification and Compensation. He served as the Chief Spokesperson for the County's contract and labor negotiations. Furthermore, during his 10-year career with the County, his experience included staffing, benefits, organizational development, human resources strategy and technology, learning and development, and alternative dispute resolution. In addition, he also served for more than 7 years in the Department of the Interior's National Park Service in various capacities as a human resources professional. Vargas received his Bachelor's of Arts in Psychology from the University of Maryland and

his MBA with a concentration in Human Resources Management from Johns Hopkins University. He is a certified Senior Human Resources Professional through the Society of Human Resources Management and serves as Chairman for the Council of Governments Personnel Officers in Washington DC.

City Government Services

The City of Rockville provides a full range of services for the community including: zoning and planning; water, sewer, and refuse collection services; one-stop location for licenses, permits, and inspections; snow removal, leaf collection, street maintenance, and other public works functions; recreation and parks services; and special programs for senior citizens, youth and low-income residents.

City Manager's Office

The Department of the City Manager coordinates with the Mayor and Council to enact and implement City policy and to manage the policy agenda by providing management and administrative support for the day-to-day operations of the City government. The Department manages Citizen Service Requests and the Citizen satisfaction survey, Intergovernmental Affairs, Organizational Development, Economic Development, Public Information Office, City Website and Cable Television, Graphics and Printing, Neighborhood Resources, and Human Rights and Community Mediation.

Community Planning and Development Services

The Department of Community Planning and Development Services promotes and facilitates the orderly development and redevelopment of the city to benefit both residential and business activity. The department prepares plans and develops programs that provide policy guidance and support to the Mayor and Council, Planning Commission Boards and Commissions, and the City senior management staff to make public decisions with respect to the provision of adequate public facilities and services, the use of land, and the administration of laws affecting development policies. The Department contains five divisions: Executive, Long Range Planning and Implementation, Planning and Zoning, Inspection Services, and Housing.

Finance

The Department of Finance helps the various agencies of the City government meet their service objectives by acquiring goods and services, allocating the organization's available financial resources, processing financial transactions and providing information and analysis as a basis for decision making. The department bills and/or collects the major City revenues and provides assistance to taxpayers and utility customers. The department also provides financial planning services for the City, secures financing for capital construction, and safeguards and invests City funds. The Department accomplishes this through five divisions: Administration, Accounting and Control, Revenue, Purchasing and Stockroom, and Budget.

Fire Department

Fire protection is provided by the Rockville Volunteer Fire Department, which is staffed by 144 paid professional and 259 volunteer fire fighters. The Rockville District includes four fire stations, two of which are located in the city limits. All four, however, respond to calls within Rockville.

There are 34 fire and rescue stations, and 12 worksites in Montgomery County, all of which participate in overall planning, fire prevention programs, operation of a centralized dispatch service, and training provided by the Montgomery County Fire and Rescue Services.

The Rockville Volunteer Fire Department is funded by a special County consolidated fire district tax of \$0.111 per \$100 of real property assessed value.

The Department of Human Resources recruits, retains, and services qualified and capable people in the most fair, effective, and efficient manner possible; and provides a full range of personnel and safety services in support of all other City departments and their functions. The Department provides classification and salary/grade studies, recruitment, testing, training, benefits, labor relations, and equal opportunity employment. The Department has four divisions: Human Resources, Learning, Performance, and Development, Health and Wellness, and Safety and Risk Management.

Information and Technology

The Department of Information and Technology is dedicated to providing technology services through computer systems, telecommunications systems, telephone systems, and the Internet. The Department manages the City's telephone, telecommunications, and computer systems, including mainframes, personal computers, and local and wide area networks. The Department also maintains and manages the geographic information systems and collects revenues from telecommunications activities. The Department has three divisions: IT Operations, Voice Communications, and GIS Operations.

Public Safety

The Rockville City Police Department protects and promotes community safety. It is charged with the responsibilities of preserving the peace, protecting life and property, ensuring the safe and orderly movement of traffic, and providing the community with an overall sense of security.

Police protection is provided by both the City and Montgomery County, with the City's force providing an enhanced level of public safety service for City residents supplementary to that of the County. Both City and County respond to all types of calls. The Police Department has 57 sworn officers, plus 36 full time employees. City police officers are dispatched by the City dispatch system, but also listen to and respond to calls for service from the County dispatch system. Written memoranda of understanding between the City and the County govern their respective jurisdictions and responsibilities.

In addition, the Rockville Police Department provides community policing services and community enhancement and code enforcement, which are specially designed to meet the needs of the Rockville community through the assurance that residential and community properties are well maintained.

Public Works

The Department of Public Works provides services in the areas of streets and drainage; refuse collection and recycling; water and sewer utilities; leaf collection, traffic operations; snow and ice control, and storm water management. In Fiscal Year 2010, the Public Works Department maintained an estimated 156 miles of streets with 47 traffic signals, 6,425 streetlights, and 298 miles of sidewalks. Refuse collection is provided to 13,872 dwelling units. Solid waste is disposed of at a transfer station operated by Montgomery County, which charges the City for disposal on a per-ton basis.

The City operates an 8 million gallon per day (MGD), water treatment plant, three potable water storage tanks with a total storage capacity of 12 million gallons, and 178 miles of water mains, which serve over 13,000 accounts within the City. The Washington Suburban Sanitary Commission (WSSC) operates 20.5 miles of water mains within the city, serving approximately 5,600 residences.

The City provides sewage collection for all but the WSSC service area. The City's sewage is treated at the Blue Plains regional treatment plant in the District of Columbia. Rockville has contractual entitlement to 9.3 million gallons per day of capacity at this plant, under an agreement with the WSSC. The City also maintains 162 miles of storm sewers. The City currently inspects and maintains 106 stormwater facilities, including 56 wet or dry ponds, 23 oil/grit separators, 12 stormceptors, 8 sand filters, 7 underground detention facilities, 4 bio-retention facilities, 3 infiltration trenches, 8 dry wells and 2 bay savers.

Recreation and Parks

The Department of Recreation and Parks provides services such as parks and urban forest maintenance, recreation and cultural arts programs, special events, community services, a municipal golf course, and a swim center. It also maintains City buildings and facilities and provides quality maintenance and landscaping of all City rights-of-way. The department offers athletic programs, classes, cultural arts programs, and special fee supported trips. The department also offers community recreation programs such as playgrounds and open gyms that are supported through General Fund revenues. The department also provides for the well being of individuals, families, and communities through the identification of the human service needs of all residents; delivery of preventive and intervention programs including counseling and outreach services.

Regional Authorities

Washington Suburban Sanitary Commission

Operation and maintenance of the water and sewer system for approximately 5,600 residences in Rockville and for the rest of Montgomery County and Prince George's County is the responsibility of a bi-county agency, the Washington Suburban Sanitary Commission ("WSSC"). WSSC operates under State law and is governed by a six-member commission. The county executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective county councils. The FY 2011 approved operating and capital budget for WSSC totaled approximately \$1.1 billion and it currently employs more than 1,600 positions.

Two major sources -- the Potomac and Patuxent Rivers -- provide the raw water supply. WSSC has 175 million gallons of water supply storage and an effective filtration capacity of 341 million gallons per day. Most of the WSSC sewage flows through a gravity trunk line system for treatment at the Blue Plains Wastewater Treatment Plant in Washington, D.C. WSSC has upgraded the Blue Plains Wastewater Treatment Plant to a wastewater treatment capacity of 370 million gallons per day.

The Maryland-National Capital Park and Planning Commission

The Maryland-National Capital Park and Planning Commission administers more than 34,288 acres of parkland in Montgomery County. This includes 13 developed and three undeveloped regional and recreational parks, many consisting of over 200 acres, and featuring more than 640 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake and Pine Lake. Of the 409 parks in the Montgomery Park system, 310 smaller park and open space areas serve as local and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C&O Canal National Historic Park, Great Falls National Park, and Glen Echo Park.

Pension and Retirement Plan

ROCKville Employees Retirement System (ROCKERS) encompasses a single-employer defined benefit pension plan and a defined contribution pension plan. The system is considered part of the City of Rockville reporting entity and is included in the City's financial reports as pension trust funds.

The annual member compensation for employees covered by the ROCKERS for the plan year ended April 1, 2010 was \$33,863,526.

For further information pertaining to the City's pension plans refer to "Note 3" of the "Notes to General Purpose Financial Statements" contained as a part of Appendix A to this Official Statement.

Employee Relations and Bargaining Units

The City currently funds approximately 540 full-time equivalents on its work force. Administrative, technical, and clerical employees have the option of joining the Association of Administrative Municipal Employees (AAME), which meets and confers with management on various items of employee concern. Police officers also have the option of joining the Fraternal Order of Police (FOP), which also meets and confers with management. Neither AAME nor the FOP engages in collective bargaining with the City. Labor classification employees, who work in the Public Works and Recreation and Parks Departments, are represented by the American Federation of State, County and Municipal Employees (AFSCME) Local 1453, which bargains collectively with the City. The current contract is in force through June 30, 2014. Since the City recognized the union in 1967, there have been no strikes by municipal employees. The City considers its labor relations to be excellent.

Investment Policy

The City maintains an active cash and investment management program. The primary goals of the program are compliance the federal, state and local laws governing the investment of public monies, providing sufficient liquidity to meet financial obligations, preserve capital, and the attainment of a favorable rate of return.

The City's investment policy was revised in May 2006, and complies with all State of Maryland requirements. The City is authorized to invest in obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, in obligations that a federal agency issues in accordance with an Act of Congress, or in repurchase agreements that any of the foregoing obligations secure. In addition, the City may invest in bankers' acceptances, commercial paper of the highest investment grade, money market funds which are also of the highest investment grade and any investment created under the Maryland Local Government Investment Pool that is administered by the State Treasurer. The City's investment policy has received certification from the Association of Public Treasurers of the United States and Canada.

Other Post Employment Benefits

The City's Comprehensive Annual Financial Report (CAFR) at June 30, 2010 is in compliance with the Governmental Accounting Standards Board ("GASB") statement #45, which address how state and local governments are required to account for and report their costs and obligations related to other post employment benefits ("OPEB"), defined to include post retirement healthcare benefits. The City has established a Retiree Benefit Trust to fund its limited OPEB obligations. For further information pertaining to the City's pension plans refer to "Note 3" of the "Notes to General Purpose Financial Statements" contained as a part of Appendix A to this Official Statement.

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ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

The City, with an estimated 2010 population of 62,476, is the third largest city in the State of Maryland. Rockville experienced the same rapid population growth in the 1950s and 1960s that made the Washington Metropolitan Statistical Area one of the most rapidly growing large metropolitan areas in the nation. The City's population grew from 6,934 in 1950 to 26,090 by 1960 and 42,079 by 1970. Population growth moderated during the 1970s. Table 4 presents the population of the City and Montgomery County as recorded in the past five decennial censuses.

Table 4
Population Statistics

<u>Year</u>	<u>City of Rockville</u>	<u>Montgomery County</u>
2010 Estimate	62,476 ⁽¹⁾	966,000 ⁽²⁾
2000 Census	47,388	878,683
1990 Census	44,835	759,600
1980 Census	43,811	579,053
1970 Census	42,079	522,809
1960 Census	26,090	340,928

(1) City of Rockville Planning Department.

(2) Maryland - National Capital Park and Planning Commission.

Source: U.S. Census Bureau, unless otherwise noted.

While Rockville's population has continued to grow, the makeup of its population continues to be relatively young with more than 62 percent of residents younger than age 45 in 2000. The distribution of population by age is presented in the table below.

Table 5
Percent of Total Population by Major Age Group

<u>Age Group</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>	<u>1960</u>
19 years and under	25.4	25.6	32.8	43.9	48.5
20 to 44 years	37.1	42.5	40.6	34.2	39.1
45 to 64 years	24.5	21.4	20.3	17.9	9.6
65 years and over	<u>13.1</u>	<u>10.5</u>	<u>6.3</u>	<u>4.0</u>	<u>2.9</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: U.S. Bureau of the Census. (Detail may not add to summations due to rounding.)

Employment Characteristics

The City of Rockville Department of Community Planning and Development Services estimates that in 1980, the number of jobs in Rockville was approximately 36,400. In 1990, it was estimated that there were 54,000 jobs in the City. In the 2010 fiscal year, it is currently estimated that there were 74,549 jobs in the City, exceeding the current population estimate of 62,476.

Employment in the City and in Montgomery County is well diversified, with the largest percentage of employment occurring in services, retail trade and government. Table 6 presents categories of civilian employment in Montgomery County in 2000 (the most recent year for which statistics are available) compared with 1990.

Table 6
Analysis of Change in Montgomery County Civilian At-Place Employment

<u>Employment Category</u>	<u>2000</u>	<u>1990</u>	<u>Difference</u>
Private Employment:			
Construction	5.90%	7.00%	-1.10%
Manufacturing	4.50%	4.70%	-0.20%
Retail Trade	16.40%	19.00%	-2.60%
Wholesale Trade	3.00%	3.70%	-0.70%
Finance, Insurance and Real Estate	7.10%	7.30%	-0.20%
Services	41.20%	34.80%	6.40%
Transportation, Communication & Public Utilities	3.00%	2.90%	0.10%
Other	<u>1.60%</u>	<u>1.10%</u>	<u>0.50%</u>
Total Private Sector	<u>82.70%</u>	<u>80.50%</u>	<u>2.20%</u>
Government Employment			
Federal	8.80%	11.20%	-2.40%
State	0.20%	0.40%	-0.20%
Local	<u>8.30%</u>	<u>7.90%</u>	<u>0.40%</u>
Total Government	<u>17.30%</u>	<u>19.50%</u>	<u>-2.20%</u>
Grand Total	<u>100.00%</u>	<u>100.00%</u>	

Source: State of Maryland, Department of Labor, Licensing and Regulation.

Labor Force and Unemployment

Table 7 lists the labor force, employed persons and average unemployment rates for Montgomery County as compared to the unemployment rates for the State of Maryland for the years 2005 through 2009, and September 2010 only. Information presented in the table below has not been seasonally adjusted.

Table 7
Unemployment Statistics

<u>Year</u>	<u>Montgomery County</u>				<u>State of Maryland</u>
	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
2010 ⁽¹⁾	510,505	482,263	28,242	5.5%	7.3%
2009	513,689	486,329	27,360	5.3%	7.0%
2008	519,944	502,940	17,004	3.3%	4.4%
2007	516,790	502,904	13,866	2.7%	3.5%
2006	517,532	502,959	14,573	2.8%	3.8%
2005	508,251	492,431	15,820	3.1%	4.1%

⁽¹⁾ September 2010 only.

Source: Maryland Department of Labor, Licensing and Regulation, Office of Workforce Information and Performance.

Major Employers

In addition to the Montgomery County and City of Rockville governments, the 10 largest private employers by number of employees are as follows:

Table 8
Major Employers in the City of Rockville

<u>Name</u>	<u>Product/Service</u>	<u>Employees</u>
Lockheed Martin Information Systems	Engineering Contractor	2,000
Westat, Inc.	Research Organization	2,000
Booz Allen Hamilton	Management Consulting	1,282
Montgomery College	Education	955
Kaiser Permanente	Medical	900
BAE Systems Inc.	IT	650
Adventist Healthcare	Pharmaceutical Firm	415
Legal & General America/Banner Life Insurance	Insurance	400
Emmes Corporation	IT	336
EU Services	Printing and Direct Mail Production	303

Source: Rockville Economic Development, Inc (November 15, 2010).

Retail Sales and Buying Income

Income levels in the City of Rockville are among some of the highest in the nation. Retail sales have grown steadily in the City. Many of the major retail centers in the City are located in the Town Center and along Rockville Pike (Maryland Route 355). A significant percentage of the City's retail trade results from expenditures by individuals living outside the City.

Table 9 lists median household effective buying income (EBI) and per capita retail sales for the City of Rockville and Montgomery County for the years 2006 through 2010. Retail sales figures and median household effective buying income (EBI) are projections provided during the current year.

Table 9
Retail Sales/Buying Income

<u>Year</u>	<u>Median Household EBI</u>		<u>Per Capita Retail Sales</u>	
	<u>City of Rockville</u>	<u>Montgomery County</u>	<u>City of Rockville</u>	<u>Montgomery County</u>
2010	\$ 70,934	\$ 73,565	\$ 29,858	\$ 14,854
2009	69,309	71,558	31,902	16,264
2008	67,996	70,051	25,760	19,142
2007	63,850	66,215	29,111	18,367
2006	60,776	62,745	28,960	16,588

Source: *Sales and Marketing Management*, "Survey of Buying Power," for the 2008 editions where information was provided by Claritas, Inc, and by Claritas, Inc. directly for 2006, 2007, 2009 and 2010 editions.

Household Income Levels

The relative distribution of income among Rockville households by income levels for 2004 is presented in the following table.

Table 10
Distribution of Rockville Households by Income Levels

<u>Income Range</u>	<u>Number of Households</u>	<u>Percentage of Households</u>
Less than \$15,000	985	4.5%
\$15,000 - \$29,999	1,423	6.5%
\$30,000 - \$49,999	3,766	17.2%
\$50,000 - \$74,999	3,109	14.2%
\$75,000 - \$99,999	3,788	17.3%
\$100,000 +	<u>8,824</u>	<u>40.3%</u>
Total	<u>21,895</u>	<u>100.0%</u>

Source: 2005 Census Update Survey, Research and Technology Center, Montgomery County Planning Department, M-NCPPC June 2006.

Land Use

Rockville's land use patterns reflect that of a maturing and urbanizing suburban employment center with stable residential neighborhoods. Many of Rockville's single-family residential neighborhoods date from the post-war period through the early 2000s, and there is little available land remaining for suburban-style single-family development. As a result, future growth is expected to be in a mixed-use context with residential development primarily being multifamily in that mixed-use context.

Most of the recent growth has been within master-planned developments: Rockville Town Square, Tower Oaks, King Farm, Fallsgrrove. Some of these projects have components remaining to be built. While Tower Oaks is primarily an office park, King Farm and Fallsgrrove represent a new development pattern of dense, mixed-use, transit-oriented residential development served by a neighborhood retail center, coupled with significant amounts of campus-style office development. Ingleside at King Farm, recently completed, caters to the needs of the senior population. New residential, office and retail development has been approved at the Twinbrook Metro Station (the project is known as Twinbrook Station), and the first phase of residential has been completed and is now occupied. In Rockville Town Center, the city's downtown, the recently completed mixed-use Rockville Town Square, just across Rt. 355 from the Rockville Metro Station, complements and supports such other approved Town Center projects as Duball (residential, retail and hotel) and KSI (residential and retail). Rockville Town Square was a public-private partnership initiated by the City, featuring retail, office and residential structures, as well as a new library and urban plaza.

In general, future growth is projected along the city's key corridors, which are Rockville Pike (Rt. 355), Research Boulevard / Piccard Drive, and areas adjacent to I-270. A significant amount of the growth will be redevelopment to more intensive use, rather than development of raw land.

Table 11
Office Space in the City of Rockville

<u>Location</u>	<u>Total Square Footage</u>	<u>Available Square Footage</u>	<u>Vacancy Rate</u>
City of Rockville	14,564,930	2,137,212	14.67%

Numbers represent Co-Star listings of properties within the City of Rockville in zip codes 20850, 20851, 20852, as of 11/17/10. Includes Classes A, B and C office space, as classified by the Building Owners and Managers Association International (BOMA). Class A office buildings have the most prestigious buildings competing for premier office users with rents above average for the area with high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence. Class B office buildings are those with adequate systems that compete for a wide range of users with rents in the average range and finishes that are fair to good for the area. Class C buildings are aimed towards tenants requiring functional space at rents below the average for the area.

Construction - Residential and Commercial Development

The City experienced significant residential and commercial growth during much of the previous decade. As seen in the chart below, as a result of the recent recession, construction projects have slowed down substantially in the City. However, Rockville is identified by Montgomery County and the State of Maryland as being in the center of a key growth corridor and, once the economy improves, it is expected that development activity in residential and commercial development will resume. The following table presents a summary of new residential and new commercial/industrial construction permit activity in Rockville for the past five years.

Table 12
Building Permits

<u>Fiscal Year</u>	<u>New Residential</u>		<u>New Commercial/Industrial</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
2010	4	\$ 995,000	--	--
2009	284	31,075,973	1	\$ 20,000,000
2008	634	20,011,341	247	132,193,430
2007	671	168,374,473	327	171,334,724
2006	693	38,769,436	297	179,031,831

Source: City of Rockville Community Planning and Development Services. Data is extracted per fiscal year (July 1 through June 30 of the next calendar year) from the City's Permit Plan system.

Development and Growth Goals

The City government has development review and permit processes that assist in promoting Rockville as an advantageous location for doing business. The City consistently follows its Master Plan in zoning and approving new development. The City adopted a revised Zoning Ordinance in 2008 that better reflects the City's maturation and urbanization.

The Master Plan and other City policies also promote the preservation of residential neighborhoods through zoning, enforcement of codes, and land-use decisions. All rental units in the City are licensed and inspected for conformance to building codes. The City does not have rent control.

City Growth Areas

King Farm. Office and commercial activity continues to be strong in the 430-acre King Farm urban village in Rockville. The residential component of King Farm is completed with 363 single-family detached units, 749 multifamily attached units, and 2,092 multifamily units. There are 650 units approved for the Ingleside, at the King Farm community, which would primarily cater to the needs of the City's senior population by providing senior living facility including independent living, assisted living and nursing home uses. Construction of the newest office building, Four Irvington Centre, has been completed and features over 200,000 square feet of space and a 120-person conference room. Lead tenants are Fed Med Inc., and Health Extras Inc. Three Irvington Center broke ground in August 2000 and delivered in April 2002. The 217,000 square foot building has experienced significant leasing activity, most notably a 75,000 square foot lease by Dental Benefit Provider, a 24,000 square foot lease by Hilb, Rogal and Hamilton Company, and an 11,000 square foot lease by Mason Dixon Funding. The 165,000

square foot building at Two Irvington Center delivered in December 2000 and includes tenants such as Wolpoff and Abramson, Avendra, and Client Network Services Inc. One Irvington Center, the first office building completed on campus, is almost completely leased to companies such as Aronson and Company, Artesia Technologies and Quest Software, Inc. This building also includes the upscale restaurant Nick's Chophouse. Also, construction of a 175,000 square foot full service Sheraton hotel was completed in 2006. In the pipeline are five, six, seven and eight Irvington Center with approximately 1 million square feet of office space and 20,000 square feet of retail proposed to be built by 2015. The entire Irvington Center campus is comprised of over 90 acres and will ultimately include over two million square feet of office commercial, retail, and hotel space.

Upper Rock District. The Upper Rock District is a planned mixed-use community, on 19.8 acres of property known as Danac Technological Park. It is located adjacent to the King Farm development, bounded by Choke Cherry Road to the north, Shady Grove Road to the west and I-270 to the south. The JBG Companies have been approved to build a community, compatible with the new urbanism of neighboring King Farm, that is a mixed-use development including multifamily residential, commercial and live/work components with residential amenity facilities and structured parking to complement existing office uses. There are two existing office buildings, a nine-story building of 238,087 square feet at 1 Choke Cherry Road completed in 2005, and a three-story building of 73,700 square feet at 5 Choke Cherry Road. Proposed additional development includes 23,500 square feet of commercial/retail (including 14,500 square feet in the market place), 844 multifamily residential units in six buildings, which include up to 126 live/work units, and structured parking garages, a marketplace for retail and office uses, outdoor plaza, and green spaces. The existing 73,700 square feet of office building will eventually be converted into residential units, included in the 844 units approved. The entire project is expected to be built out by 2020 contingent upon market conditions and other factors, with the first four residential buildings already site plan approved and the first two buildings soon to be under construction.

Rockville Town Center/Rockville Metro Plaza. Plans were announced in 2003 for the redevelopment of more than 15 acres in downtown Rockville, which included two major components. First was the 12.5-acre \$369 million mixed-use Town Square project, which is now complete. It includes approximately 185,000 square feet of retail space, which is almost completely leased; 644 residential units (152 condominiums and 492 apartments); the Arts and Innovation Center, which includes a 2-story center for visual arts and a 2-story "incubator" for start-up biotechnology-oriented companies; the new Rockville Library, which has 2 stories of library space and one story of County offices; three public parking garages with 970 parking spaces; a new public plaza; and two new streets. Approximately \$267 million in private investment and \$102 million in public investment from a combination of the City of Rockville, Montgomery County, the State of Maryland and the federal government have funded the project. Adjacent to Town Square is the privately financed Rockville Metro Plaza, which, when completed, will include three new office buildings just across MD 355 from the Rockville Metro Station. Already completed is the first of these buildings, which is a 230,000-square-foot Class A facility that delivered in October 2002. Software developer SAS Institute is the lead tenant in this building. It is expected that construction of the second building will begin within the next two years, as Choice Hotels International announced that it will move its headquarters to Rockville, bringing approximately 475 jobs, and occupy 130,000 square feet within a new building on that site.

Town Center consists of other thriving retail strips, which include such successful restaurants as California Tortilla, Tara Asia, the Apollo, Ben & Jerry's, and Pot Belly's; as well as the 13-screen Regal Cinemas movie theater. A nearby surface parking lot in the heart of Town Center, is approved for 484 multifamily residential units, a 485-room hotel and 45,300 square feet of street level retail, to be built by Duball LLC. Another project is proposed for Kettler, at 255 North Washington Street, consisting of 9,037 square feet of retail and 293 multifamily units.

Tower Oaks Corporate Park. This 200-acre site is prominently located just off I-270 in Rockville. The 180,000 square foot building located at 2600 Tower Oaks Boulevard includes tenants such as wealth management consultant Fortigent, LLC, satellite services provider Vizada, Inc. and primary tenant EMC. Booz Allen and Hamilton, Bank of America and the U.S. Department of Health and Human Services are among the tenants in the dramatic 260,000 square foot Tower Building located at 1101 Wootton Parkway. Just outside the park, the 30,000 square foot Oak Plaza delivered in March 2002 and is fully leased, and includes Sun Control Systems, and Ronald Cohen Investments as lead tenants. The Clyde's Tower Oaks Lodge restaurant opened in the park in 2002, representing the first retail establishment to locate in the development. The 189,000 square foot office building at 1 Preserve Parkway was completed in 2008, and includes Booz Allen Hamilton as primary tenant. Construction on the 198,000

square foot office building at 2000 Tower Oaks Boulevard, built by the Tower Companies and Lerner Enterprises, was completed in summer of 2008. This building is LEED-Platinum certified, and includes the corporate headquarters of its developers. A renaissance hotel, a condominium hotel and fitness center will be added at a later phase to this site. The entire Tower Oaks Corporate Park is planned for over two million square feet of office, restaurant and hotel space.

Fallsgrove (Thomas Farm). In fiscal year 2000, the Mayor and Council approved a Comprehensive Planned Development (CPD) for the Fallsgrove development (formerly known as the Thomas Farm). The 254-acre property was approved for 1,530 residential units, 950,000 square feet of office and research and development space, and 150,000 square feet of commercial retail.

The project includes a large section of the Millennium Trail Bike path, a park, a school site, the first community center west of I-270, and significant open space.

Fallsgrove now includes a total of 1,442 units residential units, of which there are 186 single family detached units, 480 attached units and 776 multifamily units. Approval has been granted for approximately 472,470 square feet of office space, and 140,000 square feet of retail space. The Village Center retail is complete and fully leased. A proposal to convert 150,000 square feet of office space to a hotel was approved in 2005 and a 133,052 square foot hotel was approved in 2007 and delivered in 2010.

Twinbrook Station. Twinbrook Station is a proposed mixed-use development at the Twinbrook Metro Station that was annexed by the City in 2005. The 26-acre property is approved for 1,595 multi-family dwelling units, 320,000 square feet of office, and 220,000 square feet of commercial retail space. Phase I residential was completed in 2010, with 279 units.

Rockville Pike. The Rockville Pike Planning Area within the City boundary covers the 2-mile stretch of State Route 355 within the city limits that is named Rockville Pike, and the land surrounding it. It runs from Richard Montgomery Drive on the north, to Twinbrook Parkway on the south. A master plan for the area was approved in 1989. Since that time, market demand has continued to produce retail and offices, but also, increasingly, multifamily residential units in the context of mixed-use redevelopment. The City has embarked on a planning process with the help of consultants to improve the functionality and design of the corridor, in accordance with community wishes. The study, entitled *Rockville's Pike: Envision a Great Place*, will almost certainly result in improvements to the transportation system and to land-use regulations such that Rockville Pike will be a walkable, mixed-use community with easy access to transit, while still accommodating the automobile.

The Rockville Pike corridor has significant potential for growth in multi-family housing. The Consultant team for the Plan estimates that the study area can absorb 200-300 units annually in the next five to seven years. There appears to be some demand for office, especially near the Rockville and Twinbrook Metro Stations, though the market may not be as strong as to the south such as White Flint and Bethesda. The Twinbrook Station project, in the south part of the study area, includes a significant office component. The north part of the study area is near Rockville Town Center and the Rockville Metro Station and offers some demand for office development, according to the consultant team. The consultants have emphasized the importance of several traffic and visual improvements along the pike, which are designed to help traffic flow and safety, and to improve the overall attractiveness of the corridor.

The Rockville Pike study area has over 2 million square feet of retail space, and over 600 retail establishments. The southern portion accounts for about 60 percent of these totals and tends to feature more national retailers, while the northern portion tends to feature more local businesses. Rents on the Pike have been consistently high in 2008-2009, ranging from about \$28 a square foot in the northern portion of the study area North Pike to about \$41 a square foot in the southern portion.

Housing

As of fiscal year 2000, more than 75 percent of the City's housing stock was less than 30 years old. Because a majority of homes were built within a relatively short span following World War II, the entire housing stock in several large neighborhoods will approach maturity at the same time. City policy has mandated that careful attention be directed to the conditions of these dwellings and the public improvements made within these areas to maintain the housing quality and the neighborhood environment. The City's policy is to prevent deterioration and

encroachment of commercial and industrial development, thus maintaining property values and neighborhood stability.

Another method of preserving neighborhoods is the City's home improvements program. Since 1975, the City has operated a federally funded Community Development Block Grant (CDBG) rehabilitation program under which loans and grants are provided to low and moderate income families who would not normally be able to afford the necessary repairs and improvements to their homes. To date, on average 15 – 20 households per year receive assistance under this program.

Housing prices were lower in Rockville in 2008 than they were in the years immediately prior, when home prices were peaking. In 2008, the average price of a single-family unit was \$515,000, and the average price of a condominium unit was \$355,000. In the year 2007, the average price of a single-family house was \$520,000 and the average price of a condominium unit was \$401,000, based on tax assessment records. However, the characteristics of homes that sold, such as age and size and the number of units sold may vary widely from year to year, making it difficult to draw definite conclusions.

Rockville negotiated an agreement with WSSC in 1975 that guarantees the City a total of 9.31 mg/d sewer capacity, so there is adequate capacity to accommodate additional housing construction. Any limits on construction activity in Montgomery County due to sewage capacity problems should not restrict development of Rockville.

Table 13 presents housing units by type from 1970 to 2010.

Table 13
Dwelling Units Occupied by Year and by Type

	<u>2010⁽¹⁾</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>
Single Family Detached	11,391	10,487	10,181	9,797	8,537
Single Family Attached	3,440	2,755	1,919	1,870	86
Multi-Family	<u>9,496</u>	<u>4,526</u>	<u>4,212</u>	<u>3,387</u>	<u>3,045</u>
Total	<u>24,327</u>	<u>17,768</u>	<u>16,312</u>	<u>15,054</u>	<u>11,668</u>

⁽¹⁾ Numbers produced as a result of housing inventory by CPDS.

Source: U.S. Bureau of the Census.

In 2010, 61% of the housing stock is single-family, attached and detached; and 39% is multifamily. New housing types projected in the City are predominately in the multifamily sector, as seen in Table 14.

Table 14
Dwelling Units Projected by Year and by Type

	<u>2015</u>	<u>2020</u>	<u>2025</u>	<u>2030</u>	<u>2035</u>	<u>2040</u>
Single Family Detached	9,506	9,533	9,553	9,553	9,553	9,553
Single Family Attached	3,446	3,446	3,521	3,586	3,586	3,589
Multi-Family	<u>13,692</u>	<u>15,805</u>	<u>16,980</u>	<u>18,368</u>	<u>19,896</u>	<u>21,368</u>
Total	<u>24,327</u>	<u>28,784</u>	<u>30,034</u>	<u>31,509</u>	<u>33,009</u>	<u>34,509</u>

Source: CPDS, City of Rockville. Forecasts produced as a part of the MWCOG Round 8 process, October 2009.

Utilities

Electricity

Electric power for Rockville and the surrounding area is provided by the Potomac Electric Power Company (PEPCO).

Gas

Three natural gas transmission pipeline companies (Columbia Gas Transmission, Dominion Transmission and Transcontinental Gas Pipeline Corporation) supply Rockville and surrounding areas with natural gas. The distributor is the Washington Gas Light Company.

Wastewater

The City of Rockville operates its own wastewater collection system serving the entire City except for the two WSSC service areas. Rockville's capacity at the Blue Plains treatment plant in the District of Columbia is 9.3 millions of gallons per day ("mg/d"); average daily demand in fiscal year 2008 was 7.20 mg/d.

Water

The City of Rockville owns and operates the Sandy Landing Road Water Treatment Plant and distributes water to about 90 percent of the City. The Potomac River is the source of the water. Average demand during fiscal year 2008 was 5.000 mg/d. About 10 percent of the City's residents and businesses receive water service from the WSSC.

Rockville invested \$15 million to upgrade its Water Treatment System to meet three objectives: rehabilitate the 45-year old plant, including raw and finished water pumps, to reduce maintenance requirements; upgrade the treatment process to meet stricter environmental standards; and expand the production capability to meet future demand. The construction program began in the early 1990s and was completed in 2006. The State approved the City's request for a rated capacity expansion of the plant from 8.0 mg/d to 12.1 mg/d to serve projected growth. The City's sewage flows through the WSSC system for treatment at Blue Plains. The City's allotted capacity at Blue Plains is 9.3 mg/d, which is included in the WSSC's total allocation of 170 mg/d.

Transportation

Rockville is located along one of the major east coast rail and highway routes to the northeast. Interstate 270 bisects the City and is the major route to such industrial centers as Buffalo, Pittsburgh, and Cleveland. Interstate 495 (Capital Beltway) and Interstate 95 provide access to Baltimore, Philadelphia, and New York City. Rail service in Rockville includes Amtrak passenger trains, Baltimore and Ohio freight and passenger service, and six-day commuter rail service. Six other railroads are available in nearby Washington, D.C.

Rockville is within 30 minutes driving time of three major airports: Baltimore-Washington International Thurgood Marshall, Dulles International, and Ronald Reagan Washington National Airport. Private and business aircraft are served by Montgomery County Airpark, 10 minutes north of Rockville.

Rockville is served by the Washington Metropolitan Area Transit Authority's Metrobus system and Metrorail. Several bus lines travel between Montgomery College, the Rockville Town Center, and downtown Washington, D.C. Other lines provide access between Rockville and suburbs to the east, including the Silver Spring Metrorail station. In addition, a County-operated, neighborhood-oriented 'Ride-On' minibus system has been in operation in Rockville since 1984.

Rockville is served by the Metro rapid transit system which connects Rockville to downtown Washington D.C. Downtown Washington D.C. and the greater metropolitan community are easily accessible for those who live and those who work in Rockville. One rapid rail station is located in downtown Rockville, close to the County Government Center and the businesses in the Town Center. A second station, the Twinbrook Station, is located near several residential neighborhoods and the commercial area along Maryland Route 355. Rockville residents are able to travel to downtown Washington D.C. in 25 minutes. The combination of service to, from and within Rockville facilitate travel for area employees and shoppers.

Educational Facilities

Primary and Secondary

Public schools in Rockville are operated by the Montgomery County Board of Education. Currently the 16th largest school district in the United States, the system operates 200 elementary and secondary schools. The operating budget is \$2.201 billion for fiscal year 2010. The emphasis that the County residents place on education is reflected in per pupil operating expenditures of \$14,294 in fiscal year 2010, and in the high percent of high school graduates who continue formal education. The total MCPS staff complement (full-time) is 21,840, with a student to instructional staff ratio of 12.08:1.

In fiscal year 2010, projected enrollment is 140,500 students. Between 1985 and 2005, 55 schools have been built or reopened in response to increasing enrollments.

Montgomery County Public Schools (MCPS) students continue to score above state and national averages on Scholastic Aptitude Tests. Of MCPS 2007 graduates, 75.2 percent went on to college study after graduation, compared to 63.9 percent of all State graduates. MCPS students in 2008 continue to achieve various forms of academic distinctions, including 56 National Merit Scholars and 33 National Blue Ribbon schools from 1983 to 2008.

Institutions of Higher Education

Montgomery College. Founded in 1946, Montgomery College was the first community college in Maryland. It has grown into a fully accredited institution of higher learning offering a two-year college program with an enrollment of about 24,452. The Rockville campus offers 600 courses and 40 curricula and options.

Area Universities. Eleven major universities offering advanced degree programs in engineering, medical, business and computer sciences are located within commuting distance of Rockville. Included among them are the University of Maryland, Georgetown University, The George Washington University, Johns Hopkins University, Howard University, Hood College, American University, Catholic University of America, and the University of the District of Columbia.

Recreation and Parks

Rockville has 66 public parks comprising more than 1,042 acres of parkland. Under its Urban Forestry program, the City maintains more than 25,200 street trees and thousands of trees located on facility grounds and in the parks; Rockville is a Tree City USA. The Horticulture division plants and maintains 230 flower beds that beautify the community environment. The department operates a municipal swim & fitness center with four large pools (indoor/outdoor) and a new fitness/meeting room addition, a full-service senior center offering social services, recreation, and fitness/wellness programs, a municipal golf course, a civic center complex, which includes a historical mansion, a 465-seat theater and a nature center, plus three large and four small community recreation centers. Recreation programs for all ages are offered throughout the year, housed in City facilities, and utilizing the eight elementary schools, two middle schools and three high schools. These include sports, dance, arts, crafts, cooking, exercise, lifetime skills and hobbies, and more. Rockville residents enjoy an extensive arts program, including an art gallery, seven resident theater groups, art-in-public places, concert series, and other events. The department operates and maintains 70 City buildings comprising 955,745 square feet, including the recently constructed Town Square garages. The City's Community Services division operates within Recreation and Parks and provides supportive programs and services to help at-risk and disadvantaged youth and families become self-sufficient, make positive life choices and adjust to life and societal challenges. Major special events include Independence Day fireworks; Hometown Holidays, a three-day festival over Memorial Day Weekend; a Maryland wine festival, Antique and Classic Car Show; and four major road running races.

Rockville residents enjoy a variety of private-sector recreational facilities and programs, including two private golf courses and country clubs, a major ice skating arena, racquetball/squash courts, fitness/exercise clubs, and more.

FINANCIAL SUMMARY

Taxable Assessed Value - as of July 1, 2010			\$ 12,008,399,297
General Obligation Long-Term Debt (Includes the Obligations)			\$ 137,776,739
Revenue Debt			\$ --
Overlapping General Obligation Debt			\$ 152,145,274
Population (2010 Estimate)			62,476
Debt Ratios:			
	<u>Amount</u>	Debt Per Capita <u>(62,476)</u>	% of Taxable <u>Assessed Value</u>
General Obligation Long-Term Debt	\$ 137,776,739	\$ 2,205	1.15%
Overlapping Debt	<u>152,145,274</u>	<u>2,435</u>	<u>1.27%</u>
Total	<u>\$ 289,922,013</u>	<u>\$ 4,640</u>	<u>2.42%</u>

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INDEBTEDNESS OF THE ISSUER

Authorization of Debt

The Issuer has the authority to issue general obligation bonds or bond anticipation notes upon a majority vote. General Obligation Bonds and Bond Anticipation Notes are issued to finance public improvements including the acquisition of land for public purposes, construction of significant facilities, nonrecurring rehabilitation or major repair of facilities and engineering, design, and planning work related to projects as set forth in the Issuer's Capital Improvement Program.

General obligation debt of the Issuer is divided, for the purposes of the following schedules, between debt that is primarily paid from the Issuer's tax levy and special assessment collections and debt that is paid from the revenues of the Issuer's water, sanitary sewer, stormwater, parking, golf and refuse enterprise funds. Though various sources of revenue are used to pay debt service, the Issuer's general obligation bonds are all backed by the Issuer's full faith, credit and taxing power.

Debt History

Table 15 presents the Issuer's historical summary of bonded indebtedness for the past five years.

Table 15
Historical Summary of Bonded Indebtedness

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Total</u> <u>Bonded Debt</u> ⁽¹⁾	<u>Enterprise</u>	<u>Net Bonded Debt</u>	<u>Adjusted Net</u> <u>Bonded Debt</u> ⁽²⁾
2010	\$ 110,416,737	\$ 73,685,966	\$ 36,730,771	\$ 34,253,940
2009	118,054,130	77,859,325	40,194,802	37,043,018
2008	112,498,242	68,836,288	43,661,954	39,515,693
2007	99,040,566	61,234,530	37,806,036	35,111,065
2006	105,504,220	63,592,756	41,911,464	38,310,272

(1) Includes general obligation bonds and the Enterprise Fund debt.

(2) The net bonded debt is reduced by the amount of equity in the Debt Service Fund for the purpose of calculating the ratio and per capita figures in the following table.

Table 16 presents debt statistics for the past five years.

Table 16
Five Year Debt Statistics

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Population</u> ⁽¹⁾	<u>Taxable</u> <u>Assessed Value</u>	<u>Adjusted Net</u> <u>Bonded Debt</u>	<u>Adjusted Net</u> <u>Bonded Debt</u> <u>to Assessed Value</u>	<u>Adjusted Net</u> <u>Bonded Debt</u> <u>Per Capita</u>
2010	62,476	\$ 12,008,399,297	\$ 34,253,940	0.29%	\$ 548
2009	64,860	11,515,493,135	37,043,018	0.32%	571
2008	63,170	10,536,940,794	39,515,693	0.38%	626
2007	61,030	9,396,506,804	35,111,065	0.37%	575
2006	59,887	7,941,275,256	38,310,272	0.48%	640

(1) Provided by the City of Rockville Department of Community Planning and Development Services.

Debt Limit

There are no statutory or Charter provisions limiting the amount of general obligation debt that may be issued by the Issuer.

General Obligation Long-Term Debt

The table below summarizes the outstanding debt of the Issuer as of June 30, 2010 and upon the issuance of the Obligations described herein.

Table 17
General Obligation
Debt Outstanding by Issue

General Fund	Issue Date	Interest Range Outstanding	Final Maturity Date	Principal Outstanding
General Improvements	1998	4.30%	2013	\$ 470,000
General Improvements	2001	4.00%	2011	170,617 ⁽¹⁾
General Improvements	2003	2.85% - 3.875%	2023	6,570,039
General Improvements – refunding	2003	2.80% - 3.00%	2013	809,286
General Improvements	2004	4.00% - 5.00%	2029	7,980,000
Community Energy Loan Program	2005	2.00%	2012	178,467
General Improvements	2005	3.50% - 4.375%	2036	10,405,000
General Improvements	2007	4.00% - 4.25%	2027	8,840,000
General Improvements	2010	2.00% - 4.10%	2031	17,610,000
General Improvements– refunding	2011	2.00% - 3.00%	2021	<u>1,339,424</u>
Total General Fund Bonds				<u>\$ 54,372,833</u>
Business Type Activity				
General Improvements	1999	4.30%	2019	\$ 1,476,098 ⁽²⁾
General Improvements	2000	3.21%	2020	1,175,569 ⁽²⁾
General Improvements	2001	4.00%	2011	134,383 ⁽¹⁾⁽³⁾
General Improvements	2002	1.90%	2023	2,421,658 ⁽²⁾
General Improvements	2003	2.20% - 3.875%	2023	2,134,961 ⁽⁴⁾
General Improvements – refunding	2003	2.20% - 3.00%	2013	330,714 ⁽⁵⁾
General Improvements	2004	4.00% - 5.00%	2029	6,155,000 ⁽⁶⁾
General Improvements	2005	0%	2036	1,089,947 ⁽⁷⁾
General Improvements	2005	3.50% - 4.375%	2036	36,685,000 ⁽⁸⁾
General Improvements	2007	4.00% - 4.25%	2027	8,850,000 ⁽⁹⁾
General Improvements	2008	3.00% - 4.50%	2028	11,490,000 ⁽²⁾
General Improvements	2010	2.00% - 4.10%	2031	9,760,000 ⁽⁵⁾
General Improvements– refunding	2011	2.00% - 3.00%	2021	<u>1,700,576⁽³⁾</u>
Total Business Type Activity Bonds				<u>\$ 83,403,906</u>
Total General Obligation Bonds				<u>\$ 137,776,739</u>

(1) The Bonds maturing in the years 2012 through 2021 will be called for redemption on March 15, 2011, and will be current refunded by the General Obligation Refunded Bonds, Series 2011 contained herein. Therefore, those maturities have not been included in calculating the outstanding debt.

(2) This portion represents the amount abated with funds from the water fund.

(3) This portion represents the amount abated with funds from the sanitary sewer fund.

(4) This portion represents the amount abated with funds from the sanitary sewer and golf course funds.

(5) This portion represents the amount abated with funds from the water and sanitary sewer funds.

(6) This portion represents the amount abated with funds from the parking, sanitary sewer, and refuse funds.

(7) This portion represents the amount abated with funds from the storm water fund.

(8) This portion represents the amount abated with funds from the parking, water, sanitary sewer, and refuse funds.

(9) This portion represents the amount abated with funds from the water, sanitary sewer and refuse funds.

As indicated in the table on the previous page, portions of the Issuer's general obligation debt service are being paid with revenues of the sewer, water, refuse and parking funds. The schedules on the following page report annual debt service payments for the Issuer's general obligation debt by source of payment. The following table presents the portion of the Issuer's debt service, including debt service on a portion of the Bonds, which is being paid through the tax levy and special assessments. The second table following presents the portion of the Issuer's debt service, including debt service on a portion of the Bonds, which is being paid with revenues of Issuer enterprise funds.

General obligation debt of the Issuer is divided, for the purposes of the following schedules, between debt that is primarily paid from the Issuer's tax levy and special assessment collections and debt that is paid from the revenues of the Issuer's water, sanitary sewer and refuse enterprise funds. Though various sources of revenue are used to pay debt service, the Issuer's general obligation bonds are all backed by the Issuer's full faith, credit and taxing power.

Table 18 presents the annual principal and interest payments for the Issuer's general obligation bonds, including the Bonds.

Table 18
General Obligation Debt
Schedule of Annual Maturities

<u>Fiscal Year</u>	<u>Outstanding Debt</u>		<u>Series 2010 Bonds</u>		<u>Series 2011 Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal⁽¹⁾</u>	<u>Interest⁽²⁾</u>	<u>Principal⁽¹⁾</u>	<u>Interest⁽²⁾</u>	
2011	\$ 6,500,000	\$ 2,027,373	\$ --	\$ 381,235	\$ --	\$ --	\$ 8,908,608
2012	6,180,000	3,825,345	1,580,000	863,173	320,000	90,001	12,858,519
2013	5,985,000	3,606,955	1,580,000	831,572	320,000	68,950	12,392,477
2014	5,640,000	3,383,216	1,580,000	799,973	320,000	62,550	11,785,739
2015	5,650,000	3,170,579	1,580,000	752,572	320,000	56,150	11,529,301
2016	5,670,000	2,965,191	1,575,000	705,173	305,000	49,750	11,270,114
2017	5,700,000	2,736,366	1,575,000	657,922	300,000	43,650	11,012,938
2018	5,215,000	2,504,801	1,575,000	610,673	300,000	34,650	10,240,124
2019	4,905,000	2,295,951	1,575,000	563,422	290,000	25,650	9,655,023
2020	4,945,000	2,098,791	1,570,000	516,173	285,000	16,950	9,431,914
2021	4,985,000	1,898,426	1,570,000	469,072	280,000	8,400	9,210,898
2022	5,020,000	1,694,920	1,165,000	421,973	--	--	8,301,893
2023	5,060,000	1,488,915	1,165,000	387,022	--	--	8,100,937
2024	4,440,000	1,276,646	1,160,000	349,160	--	--	7,225,806
2025	3,790,000	1,084,496	1,160,000	310,010	--	--	6,344,506
2026	2,635,000	924,640	1,160,000	269,410	--	--	4,989,050
2027	2,695,000	810,478	1,160,000	227,360	--	--	4,892,838
2028	1,925,000	693,675	1,160,000	184,440	--	--	3,963,115
2029	1,515,000	608,350	1,160,000	140,360	--	--	3,423,710
2030	1,580,000	541,525	1,160,000	93,960	--	--	3,375,485
2031	1,645,000	474,375	1,160,000	47,560	--	--	3,326,935
2032	1,715,000	404,463	--	--	--	--	2,119,463
2033	1,790,000	331,575	--	--	--	--	2,121,575
2034	1,865,000	255,500	--	--	--	--	2,120,500
2035	1,945,000	173,906	--	--	--	--	2,118,906
2036	<u>2,030,000</u>	<u>88,813</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,118,813</u>
Total	<u>\$ 101,025,000</u>	<u>\$ 41,365,271</u>	<u>\$ 27,370,000</u>	<u>\$ 9,582,215</u>	<u>\$ 3,040,000</u>	<u>\$ 456,701</u>	<u>\$ 173,930,579</u>

Table 19 reflects estimated net tax requirements for debt service of the Issuer's long-term obligations as of June 30, 2010. This table does not include the issuance of the Obligations described herein.

Table 19
General Obligation Debt
Issuer Net Requirement Analysis

<u>Fiscal Year June 30</u>	<u>Total General Obligation Debt Service Requirements</u>	<u>Debt Service Paid By Other Business Funds⁽¹⁾</u>	<u>Direct Issuer Debt Service Obligations⁽²⁾</u>
2011	\$ 8,527,373	\$ 6,967,925	\$ 1,559,448
2012	10,005,345	6,854,023	3,151,322
2013	9,591,955	6,681,878	2,910,077
2014	9,023,216	6,521,728	2,501,488
2015	8,820,579	6,398,327	2,422,252
2016	8,635,191	6,289,871	2,345,320
2017	8,436,366	6,168,565	2,267,801
2018	7,719,801	5,457,235	2,262,566
2019	7,200,951	5,093,600	2,107,351
2020	7,043,791	4,821,931	2,221,860
2021	6,883,426	4,600,393	2,283,033
2022	6,714,920	4,354,879	2,360,041
2023	6,548,915	4,289,989	2,258,926
2024	5,716,646	3,905,847	1,810,799
2025	4,874,496	3,643,048	1,231,448
2026	3,559,640	2,995,439	564,201
2027	3,505,478	2,963,377	542,101
2028	2,618,675	2,618,675	--
2029	2,123,350	2,123,350	--
2030	2,121,525	2,121,525	--
2031	2,119,375	2,119,375	--
2032	2,119,463	2,119,463	--
2033	2,121,575	2,121,575	--
2034	2,120,500	2,120,500	--
2035	2,118,906	2,118,906	--
2036	<u>2,118,813</u>	<u>2,118,813</u>	<u>--</u>
Total	<u>\$ 142,390,271</u>	<u>\$ 107,590,237</u>	<u>\$ 34,800,034</u>

(1) Reflects debt issued by the Issuer but paid through the sewer, water, refuse, parking and golf course funds.

(2) Portion of debt paid directly by general fund monies.

General Obligation Short-Term Debt

The Issuer currently has no short-term debt outstanding. The Issuer has not borrowed for cash flow purposes in the last ten years.

Revenue Debt

The Issuer has no revenue debt outstanding.

Other Commitments

Washington Suburban Sanitary Commission (WSSC)

The Issuer has contracted with WSSC to purchase a portion of the capacity of the Blue Plains Wastewater Treatment Plant. Through June 30, 2010, the Issuer had paid approximately \$22,075,059 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The Issuer's remaining contribution is estimated to be \$34,314,000 for treatment capacity. The Issuer intends to issue bonds to fund most of these costs.

In addition to the capacity cost described above, WSSC charges the Issuer a portion of its operating costs for treatment of sewage. The Issuer accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the Issuer.

Lease Commitments

The Issuer entered into a ten-year office lease which began on June 1, 2004, and expires on May 31, 2014. Total annual rent is \$94,800, with an annual rent increase of 3% for each year thereafter. The Issuer also has a five-year office lease which began on June 1, 2008 and expires on May 31, 2013. Total annual rent is \$101,551 with an annual rent increase of 3% each year thereafter. The Issuer leased the Arts and Innovations Center to VisArts under a 20 year lease which began on August 1, 2007, and expires on June 30, 2027. The rental payments for the months beginning August 1, 2007 through July 1, 2008 were abated and the base rent for that year will be allocated over lease years 2009, 2010, and 2011. Monthly payment for this lease commenced on August 1, 2008. The following table presents the annual rental commitments.

Table 20
Operating Lease Annual Maturity Schedule

<u>Year</u>	<u>Rent Amount</u>
2011	\$ 260,979
2012	259,196
2013	266,972
2014	157,255
2015	30,747
2016	31,669
2017	32,619
2018	33,598
2019	34,606
2020	35,644
2021	36,713
2022	37,815
2023	38,949
2024	40,118
2025	41,321
2026	42,561
2027	<u>43,838</u>
Total	<u>\$ 1,424,600</u>

Capital Improvements Program and Future Financing

Capital investments involve Issuer projects which normally have long useful lives. Items included within a CIP are usually defined within one of the following six categories:

1. The acquisition of land for a public purpose.
2. The construction of a significant facility, e.g., a building or a road, or the addition to or extension of an existing facility.
3. Nonrecurring rehabilitation or major repair to all or a part of a facility, such as infrequent repairs that are not considered to be recurring maintenance, provided the total cost is more than \$100,000.
4. Any specific planning, engineering study, or design work related to an individual project falling within the three preceding categories.
5. Any long-term project funded through a grant where the establishment of a CIP project is a condition of the grant, regardless of the amount of funding per fiscal year.
6. A significant one-time investment in tangible goods of any nature, the benefit of which will accrue over a multi-year period. Examples include items such as large initial investments in technology improvements or the purchase of a new telephone system over \$100,000.

The recommended CIP includes five years of projected capital needs. The first year of the program becomes the capital budget for which project money will be authorized. The remaining four years of the CIP will serve as a financial plan for capital investments.

From the fiscal year 2011 to the fiscal year 2015 the Issuer anticipates constructing approximately \$36,699,681 of capital improvement projects that will be supported by General Fund Sources.

The following table presents a summary of the Issuer's 2011 through 2015 Capital Financing Plan.

	Table 21 <u>Capital Financing Plan</u> (000s)				
	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>
Funds Needed for Capital Projects	\$ 16,551	\$ 13,541	\$ 7,143	\$ 7,425	\$ 6,515
Sources of Funds (projected)					
External (other governments or private contributions)	\$ 2,879	\$ 4,139	\$ 210	\$ 300	\$ 410
Bond Issues	13,000	--	6,500	--	--
Pay As You Go	3,141	3,000	3,500	4,000	4,500
Interest	<u>65</u>	<u>46</u>	<u>91</u>	<u>93</u>	<u>40</u>
Total Sources of Funds	<u>\$ 19,085</u>	<u>\$ 7,185</u>	<u>\$ 10,301</u>	<u>\$ 4,393</u>	<u>\$ 4,950</u>
Beginning Cash Balance	<u>5,275</u>	<u>7,809</u>	<u>1,453</u>	<u>4,610</u>	<u>1,579</u>
Ending Cash Balance	<u>\$ 7,809</u>	<u>\$ 1,453</u>	<u>\$ 4,610</u>	<u>\$ 1,579</u>	<u>\$ 13</u>

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Overlapping Debt

The Issuer shares local governing authority with Montgomery County. Montgomery County provides health, welfare, additional social services, mass transit, the public library system, and education within the City. Montgomery County also coordinates most of the fire and volunteer rescue services in the area.

Montgomery County is the only taxing jurisdiction overlapping the City which has the power to issue debt. The County's general obligation debt outstanding as of April 30, 2010 is presented in Table 22.

Table 22
Overlapping Debt

	<u>General Obligation Debt</u>	<u>Percentage Applicable to the Issuer</u>	<u>Amount Applicable to the Issuer</u>
Montgomery County	\$ 2,141,089,285	7.11% ⁽¹⁾	\$ 152,145,274

⁽¹⁾ Based on fiscal year 2009 assessed valuations reported by the State of Maryland Department of Assessments and Taxation.

Source: Montgomery County, Maryland preliminary official statement dated July 8, 2010.

Payment Record

The Issuer has never defaulted in the payment, when due, of principal or interest on any of its debt obligations nor has the Issuer failed to appropriate funds to pay when due its annual lease obligations.

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FINANCIAL INFORMATION

Financial Reporting Entity

In evaluating the Issuer as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) which may or may not fall within the Issuer's oversight and control. The specific factors which are addressed in determining which organizations to include in the entity are delineated below:

Manifestations of Oversight Responsibility
Selection of Governing Authority
Designation of Management
Ability to Significantly Influence Operations

Accountability for Fiscal Matters
Budgetary Authority
Responsibility for Debt
Financial Management
Revenue Characteristics

Additional factors which may significantly influence the definition of the reporting entity are:

Scope of Public Service
Special Financing Relationship

The relative importance of each criterion must be evaluated in light of specific circumstances. Although the decision to include or exclude a potential component unit is left to the professional judgment of responsible local officials, a positive response to any of the above criteria requires that the specific reasons for excluding the potential component unit be disclosed. Accordingly, listed below are all organizations for which there is at least one positive response with respect to the above criteria:

1. Included Within the Entity

None. It is important to note, however, that the pension plan, for which the Issuer acts in a trustee capacity, is included in the reporting entity.

2. Excluded from the Entity

Rockville Housing Enterprises. The Board of Directors is appointed by the Issuer. Once appointed, however, the directors of Rockville Housing Enterprises operate autonomously, with no authority being exercised over them by the Issuer. Rockville Housing Enterprises is responsible directly to the United States Department of Housing and Urban Development, rather than to any local jurisdiction. No financial interdependency, ability to significantly influence operations or accountability for fiscal matters exists between this entity and the Issuer.

Financial Reports

The City Charter specifies that the financial books and accounts of the Issuer must be audited annually by a certified public accountant. The auditor is required to examine all funds of the Issuer in accordance with generally accepted accounting standards.

The accounts of the Issuer are organized into funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenue and expenditures (or expenses, as appropriate). Government resources are allocated

to and accounted for in individual funds based upon the purposes for which they are to be expended and the means by which spending activities are controlled. The following fund types are used by the Issuer:

Governmental Funds – General Fund, Community Development Block Grant Fund, Special Activities Fund, Speed Camera Fund, Town Center Management District Fund, Debt Service Fund and Capital Projects Fund;

Proprietary Funds – Water Facility Fund, Sanitary Sewer Fund, Refuse Fund, Storm Water Management Fund, Parking Fund, and RedGate Golf Course Fund;

Fiduciary – Pension Trust Fund.

The modified accrual basis of accounting is followed by the governmental funds, as well as the “financial flow measurement focus.” Under this method of accounting, revenue is recorded when susceptible to accrual, i.e. when measurable and available for the funding of current appropriations.

Copies of the Issuer's Comprehensive Annual Financial Reports (CAFR) for the years ended June 30, 2007 through 2010 and the Fiscal Year 2011 Adopted Operating Budget and FY2011-2015 Capital Improvements Program are available at the Issuer's website www.rockvillemd.gov/government/finance.htm or upon request from the Issuer. Excerpts from the Issuer's 2010 CAFR are attached as Exhibit A to this Official Statement.

Budgeting and Accounting

The City Charter requires the City Manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a five-year capital improvements plan is presented for the Mayor and Council's review. Each department prepares its own budget request for the City Manager's review. The Mayor and Council schedule public hearings and publish advance notices of them. The budget is approved in the form of an appropriations ordinance. During the year, the City Manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can only be enacted by the Mayor and Council through a budget amendment ordinance.

The Issuer places continued emphasis on maintenance of an accounting system which provides strong internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. The internal controls in place in the Issuer are subject to continuous review by management officials and the Issuer's external auditors.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rockville, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2009. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The City has been awarded the Certificate of Achievement for the past nineteen years. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. See Appendix A for selected excerpts from the Issuer's 2010 comprehensive annual financial report.

The City has earned the GFOA Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2009. The City also received the GFOA's award Outstanding Achievement for the Popular Annual Financial Reporting (PAFR) for the fiscal year 2009. This is the third year the City has received this award. The PAFR is specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in finance.

General Fund Revenue

For Fiscal Year 2011, the three largest sources of revenue to the Issuer are the property tax (56.0% of revenues), the Issuer's share of the earned income tax (15.0%) and charges for services (9.4%). The earned income tax is collected by the State of Maryland. Other significant sources of General Fund revenues are, Montgomery County's payment for Issuer services for which the County collects taxes, grants and other government revenue, licenses and permits, and the transient occupancy tax.

Historical Results of Operations

Statements of revenues and expenditures of the operating funds of the Issuer have been compiled from the Issuer's financial reports. They have been organized in such a manner as to facilitate year-to-year comparisons. Appendix A to this Official Statement presents excerpts from the Issuer's Comprehensive Annual Financial Report for the year ended June 30, 2010.

Table 23 below presents the adopted general fund budgets for the 2010 and 2011 fiscal years.

Table 23
Adopted Fiscal Year 2010
and 2011 General Fund Budgets

	<u>2010 Adopted</u>	<u>2011 Adopted</u>
Revenue		
Property Taxes	\$ 34,345,140	\$ 34,762,000
Revenue from Other Governments	16,237,724	13,527,213
Licenses and Permits	1,954,500	1,660,000
Charges for Services	5,873,558	5,853,405
Fines and Forfeitures	619,000	645,000
Use of Money and Property	466,375	322,080
Other Revenue	2,586,290	5,332,970
Appropriated Fund Balance	<u>--</u>	<u>1,019,625</u>
Total Revenue	<u>\$ 62,082,587</u>	<u>\$ 63,122,293</u>
Expenditures		
Personnel	\$ 38,798,252	\$ 40,349,040
Operating Expenditures	12,209,210	11,717,863
Capital Outlays	457,000	480,620
Other Charges	2,518,125	2,333,770
Contribution to CIP	4,100,000	3,141,000
Debt Service	<u>4,000,000</u>	<u>5,100,000</u>
Total Expenditures	<u>\$ 62,082,587</u>	<u>\$ 63,122,293</u>

Table 24 below presents the statements of revenues and expenditures of the Issuer's general fund for the fiscal years ended June 30, 2007 through 2010.

Table 24
General Fund Statement of Revenues and Expenditures
and Changes in the General Fund
(Years Ended June 30)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenue				
Property Taxes	\$ 35,454,838	\$ 34,526,050	\$ 32,205,812	\$ 31,192,975
Revenue from Other Governments:				
Income Taxes	10,306,947	10,438,811	10,622,311	9,816,933
Gas and Motor Vehicles	325,985	2,666,415	3,052,324	3,264,162
County Tax Duplication Payment	2,228,449	2,228,449	2,228,499	2,228,499
Admissions and Amusement Taxes	1,006,370	993,354	1,057,856	911,521
Grants and Other Governmental Revenues	1,531,670	1,474,451	1,020,966	1,452,629
Licenses and Permits	1,737,186	1,606,198	1,797,039	2,114,909
Charges for Services	5,766,551	5,473,187	4,859,899	4,652,890
Use of Money and Property	186,255	330,784	2,168,327	1,883,744
Fines and Forfeitures	687,733	648,478	634,907	877,137
Other Revenue	<u>2,735,757</u>	<u>2,451,550</u>	<u>1,714,813</u>	<u>1,760,530</u>
Total Revenue	<u>\$ 61,967,741</u>	<u>\$ 62,837,727</u>	<u>\$ 61,362,753</u>	<u>\$ 60,155,929</u>
Expenditures				
Current Operations:				
General Government	\$ 14,175,052	\$ 14,009,636	\$ 12,229,523	\$ 10,884,461
Community Development	3,866,116	3,827,609	3,609,061	3,729,444
Public Safety	8,540,236	8,119,346	7,562,703	7,412,885
Public Works	7,107,065	6,088,239	6,206,579	5,862,318
Recreation and Parks	<u>19,245,099</u>	<u>18,532,862</u>	<u>17,872,823</u>	<u>16,270,039</u>
Total Expenditures	<u>\$ 52,933,568</u>	<u>\$ 50,577,692</u>	<u>\$ 47,480,689</u>	<u>\$ 44,159,147</u>
Excess (Deficiency) of				
Revenue Over Expenditure	<u>\$ 9,034,173</u>	<u>\$ 12,260,035</u>	<u>\$ 13,882,064</u>	<u>\$ 15,996,782</u>
Other Financing Sources (Uses)				
Operating Transfers Out	<u>(7,402,266)</u>	<u>(13,706,324)</u>	<u>(14,497,392)</u>	<u>(17,280,348)</u>
Total Other Financing Sources (Uses)	<u>\$ (7,402,266)</u>	<u>\$ (13,706,324)</u>	<u>\$ (14,497,392)</u>	<u>\$ (17,280,348)</u>
Excess (Deficiency) of Revenue and Expenditures				
and Other Financing Sources (Uses)	1,631,907	(1,446,289)	(615,328)	(1,283,566)
Adjustment to Beginning Balance	51,566	--	--	--
Fund Balance at Beginning of Year				
as Previously Reported	<u>\$ 13,305,376</u>	<u>\$ 15,051,665</u>	<u>\$ 15,666,993</u>	<u>\$ 16,950,559</u>
Fund Balance at End of Year	<u>\$ 15,288,849</u>	<u>\$ 13,605,376</u>	<u>\$ 15,051,665</u>	<u>\$ 15,666,993</u>

PROPERTY VALUATIONS AND TAXES

Property Valuation

The assessment of real and tangible personal property for purposes of property taxation by state and local governmental units is the responsibility of the State Department of Assessment and Taxation. Assessment records and tax rolls are maintained in each county seat and in Baltimore City. One-third of the real property base is physically inspected and revalued once every three years. Any increase in full cash value arising from such reassessment is phased in over the ensuing three taxable years in equal annual installments, although a decline becomes effective the first year. Taxable assessed value is subject to statutory limits and annual increases for taxable assessed valuation are capped at 10% for existing residential property.

Property Tax Exemptions

Exemptions from State and local property taxation include real property owned by Federal, State, County and other governmental units, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind. The State Department of Assessments and Taxation grants exemptions from property taxes, pursuant to State law. Table 25 presents the Issuer's assessed value of all taxable property by class for the past five years.

Table 25
Assessed Value of All Taxable Property by Class

Year Ended			Privately Owned	
<u>June 30</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Utilities</u>	<u>Total</u>
2010	\$ 11,594,235,339	\$ 289,914,771	\$ 124,249,187	\$ 12,008,399,297
2009	11,117,285,215	278,555,431	119,652,489	11,515,493,135
2008	10,148,794,995	273,424,734	120,985,475	10,536,940,794
2007	9,008,163,075	266,743,524	121,600,205	9,396,506,804
2006	7,008,816,746	282,505,725	118,952,785	7,941,275,256

Property Tax Levies and Collections

Montgomery County levies real and personal property taxes on all taxable property within its boundaries. Taxes are due in full on July 1 and payable without penalty in equal installments on the following September 30 and December 31. Interest at the rate of 2/3 of 1% per month and penalty of 1% per month are charged on each delinquent installment; new tax bills may be paid within 30 days without interest or penalty. Tax sales are held on the second Monday in June in the fiscal year taxes are due and payable to recover delinquent real property taxes. Legal action may be taken to enforce payment of both real and personal property taxes.

Table 26 presents the tax levy and tax collections for the Issuer for each of the past five fiscal years.

Table 26
Property Tax Levies and Collections

Year Ended	Total	Current Tax	Percent	Delinquent	Total Tax	Total Collection
<u>June 30</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>of Levy</u>	<u>Tax Collections</u>	<u>Collection</u>	<u>as Percent of</u>
			<u>Collected</u>	<u>and Adjustments⁽¹⁾</u>		<u>Current Levy</u>
2010	\$ 31,804,031	\$ 31,710,185	99.70%	\$ 1,139,217	\$ 32,849,402	103.29%
2009	36,589,554	35,685,475	97.53%	461,407	36,146,882	98.79%
2008	33,234,662	32,630,186	98.18%	126,255	32,756,441	98.56%
2007	31,124,821	30,670,042	98.54%	534,609	31,204,651	100.26%
2006	28,956,431	28,410,726	98.12%	91,920	28,502,646	98.43%

⁽¹⁾ Collections and adjustments are for all prior years.

Source: City of Rockville, Maryland Comprehensive Annual Financial Report.

Tax Rate Valuation

A single tax rate applies for each fiscal year to the assessed value of the taxable real and personal property. The rate is equal to the ratio of the amount to be raised per \$100 of assessed value. Personal property in Maryland has always been assessed at full value. State law requires that personal property shall be taxed at 2.5 times the real property rate if the personal property tax rate is not specifically set. For the fiscal year 2010, the Issuer's real property is taxed at the rate of \$0.292 per \$100 of assessed valuation and personal property is taxed at the rate of \$0.805 per \$100 of assessed valuation.

Table 27 presents the tax rates for all taxing jurisdictions in the Issuer for the last five fiscal years.

Table 27
Property Tax Rates⁽¹⁾
Overlapping Governments

<u>Year Ended</u> <u>June 30</u>	<u>Issuer</u>	<u>State</u>	<u>County⁽²⁾</u>	<u>Total</u>
2010	0.292	0.112	0.826	1.230
2009	0.292	0.112	0.818	1.222
2008	0.302	0.112	0.812	1.226
2007	0.312	0.112	0.812	1.236
2006	0.322	0.132	0.856	1.310

⁽¹⁾ Per \$100 of Assessed Value.

⁽²⁾ County tax rates include school levies.

Principal Taxpayers

A list of the 10 principal taxpayers in the Issuer for the fiscal year ended June 30, 2010 is presented in Table 28.

Table 28
Principal Taxpayers

<u>Name</u>	<u>Assessable Base</u>	<u>Percentage</u> <u>of Taxpayer</u> <u>Base to Total</u> <u>Assessable Base</u>
Brandywine Research LLC	\$ 82,978,000	0.72%
TA Western, LLC	73,781,000	0.64%
PHF Rockville	65,000,000	0.56%
Tower Dawson, LLC	62,976,800	0.54%
Verizon	61,107,600	0.53%
PEPCO	58,479,300	0.50%
James Campbell Co., LLC	55,335,400	0.48%
FG Retail Group	50,530,500	0.44%
Four Irvington Center	51,437,300	0.44%
Transwestern Gateway	<u>42,415,700</u>	0.37%
Total	<u>\$ 604,041,600</u>	

Source: State of Maryland Department of Assessments and Taxation.

FINANCIAL ADVISOR

The Issuer has retained Public Financial Management, Inc., of Minneapolis, Minnesota, as financial advisor (the “Financial Advisor”) in connection with the issuance of the Obligations. In preparing the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the Issuer to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Obligations.

Requests for information concerning the Issuer should be addressed to Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402 (612/338-3535, 612/338-7264 fax).

RATINGS

The Obligations are rated “Aaa” by Moody's Investors Service, Inc. and “AAA” by Standard and Poor's. A rating is subject to withdrawal at any time; withdrawal of a rating may have an adverse effect on the marketability of the Obligations. For an explanation of the significance of the rating, an investor should communicate with the rating agency. The outstanding general obligation debt of the Issuer has been affirmed as “Aaa” by Moody's and “AAA” by Standard & Poor's.

TAX MATTERS

Federal Income Tax – Series 2010 Bonds

In the opinion of Bond Counsel, under existing law, the interest on the Series 2010 Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes).

The Issuer has designated the Series 2010 Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

Under the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), there are certain requirements that must be met subsequent to the issuance of the Obligations in order for the interest on the Series 2010 Bonds to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the Series 2010 Bonds. Such restrictions include, among other things, limitations on the yield of investments acquired with gross proceeds of the Series 2010 Bonds and the periodic payment to the United States of specified portions of arbitrage profit derived from such investments.

In order to comply with the requirements of the Code, the Issuer has made covenants and agreements that are designed to satisfy the requirements of Section 103 and Sections 141 through 150, inclusive, of the Code, and the income tax regulations issued thereunder. In the opinion of Bond Counsel, these covenants and agreements are sufficient to meet the requirements (to the extent applicable to the Series 2010 Bonds) of Section 103 and Sections 141 through 150 of the Code. However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with these covenants and agreements. In the event of noncompliance with such covenants and

agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2010 Bonds from becoming includable in gross income for federal income tax purposes retroactively to the date of issue.

Interest income on the Series 2010 Bonds may also be included with the “dividend equivalent amount” for purposes of determining the branch profits tax imposed by the Code on certain foreign corporations conducting a trade or business in the United States.

Other federal income tax consequences may arise from ownership of the Series 2010 Bonds, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2010 Bonds or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the Series 2010 Bonds, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2010 Bonds, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Series 2010 Bonds, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive investment income, which includes interest on the Series 2010 Bonds, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status.

A Bond will be considered to have been issued at a premium if, and to the extent that, the holder’s tax basis in the Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). The holder will be required to reduce his tax basis in the Bond for purposes of determining gain or loss upon disposition of the Bond by the amount of amortizable bond premium that accrues (determined on a constant yield method) during the period of ownership. No deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Series 2010 Bonds.

The initial public offering price of some of the Series 2010 Bonds may be less than the amount payable on those Series 2010 Bonds at maturity. The excess, if any, of the amount payable at maturity of a Bond over the initial public offering price (plus accrued interest from the dated date of the Bond to the date of initial delivery of the Bond) at which a substantial amount of the same maturity of the Series 2010 Bonds was sold constitutes original issue discount (“OID”) for Federal income tax purposes. The full amount of OID will accrue over the term of a Bond in accordance with a constant yield method (using semiannual compounding) which allocates smaller portions of OID to earlier semiannual compounding periods and larger portions of OID to later semiannual compounding periods. In the case of an original or a subsequent holder of a Bond, the amount of OID which is treated as having accrued with respect to such Bond during the period that the holder has held it (a) is not included in the gross income of the holder for Federal income tax purposes, and (b) is included in the cost basis of the holder in determining, for Federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). Holders of Series 2010 Bonds should consult their tax advisors with respect to the determination, for Federal income tax purposes, of OID accrued upon the sale, redemption or payment at maturity of the Series 2010 Bonds.

Prospective purchasers of the Series 2010 Bonds should consider possible state and local, excise, or franchise tax consequences arising from original issue discount on the Series 2010 Bonds. In addition, prospective corporate purchasers of the Series 2010 Bonds should consider possible federal income tax consequences arising from original issue discount on the Series 2010 Bonds under the alternative minimum tax and the branch profits tax described above.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Series 2010 Bonds, if enacted, could alter or amend one or more of the federal tax matters referred to above and/or adversely affect the market value of the Series 2010 Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to Series 2010 Bonds issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Series 2010 Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

The Internal Revenue Service (the “Service”) has a program to audit state and local government obligations to determine whether the interest thereon is includable in gross income for Federal income tax purposes. If the Service does audit the Series 2010 Bonds, under current Service procedures, the Service will treat the Issuer as the taxpayer and the owners of the Series 2010 Bonds will have only limited rights, if any, to participate.

Interest paid on tax-exempt obligations is subject to information reporting for federal income tax purposes in a manner similar to interest paid on taxable obligations. This reporting requirement does not in and of itself affect or alter the excludability of such interest from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete. Prospective purchasers and holders of the Series 2010 Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

Federal Income Tax – Series 2011 Bonds

In the opinion of Bond Counsel, under existing law, the interest on the Series 2011 Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes).

The Series 2011 Bonds are “qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Code.

Under the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), there are certain requirements that must be met subsequent to the issuance of the Series 2011 Bonds in order for the interest on the Series 2011 Bonds to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the Series 2011 Bonds. Such restrictions include, among other things, limitations on the yield of investments acquired with gross proceeds of the Series 2011 Bonds and the periodic payment to the United States of specified portions of arbitrage profit derived from such investments.

In order to comply with the requirements of the Code, the Issuer has made covenants and agreements that are designed to satisfy the requirements of Section 103 and Sections 141 through 150, inclusive, of the Code, and the income tax regulations issued thereunder. In the opinion of Bond Counsel, these covenants and agreements are sufficient to meet the requirements (to the extent applicable to the Series 2011 Bonds) of Section 103 and Sections 141 through 150 of the Code. However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with these covenants and agreements. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2011 Bonds from becoming includable in gross income for federal income tax purposes retroactively to the date of issue.

Interest on the Series 2011 Bonds is not included in corporate or individual alternative minimum taxable income as a separate enumerated item of tax preference or other specific adjustment. However, for purposes of computing the corporate alternative minimum tax contained in the Code, a corporation will generally be required to increase its alternative minimum taxable income by 75% of the amount by which its “adjusted current earnings” (a modified definition of “earnings and profits”) exceeds its alternative minimum taxable income (computed without regard to this adjusted current earnings adjustment). For such purpose, “adjusted current earnings” will include, among other items, tax-exempt interest income from the Series 2011 Bonds. Interest income on the Series 2011 Bonds may also be included with the “dividend equivalent amount” for purposes of determining the branch profits tax imposed by the Code on certain foreign corporations conducting a trade or business in the United States.

Other federal income tax consequences may arise from ownership of the Series 2011 Bonds, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2011 Bonds or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the Series 2011 Bonds, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2011 Bonds, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Series 2011 Bonds, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive

investment income, which includes interest on the Series 2011 Bonds, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status.

A Bond will be considered to have been issued at a premium if, and to the extent that, the holder's tax basis in the Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). The holder will be required to reduce his tax basis in the Bond for purposes of determining gain or loss upon disposition of the Bond by the amount of amortizable bond premium that accrues (determined on a constant yield method) during the period of ownership. No deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Series 2011 Bonds.

The initial public offering price of some of the Series 2011 Bonds may be less than the amount payable on those Series 2011 Bonds at maturity. The excess, if any, of the amount payable at maturity of a Bond over the initial public offering price (plus accrued interest from the dated date of the Bond to the date of initial delivery of the Bond) at which a substantial amount of the same maturity of the Series B Bonds was sold constitutes original issue discount ("OID") for Federal income tax purposes. The full amount of OID will accrue over the term of a Bond in accordance with a constant yield method (using semiannual compounding) which allocates smaller portions of OID to earlier semiannual compounding periods and larger portions of OID to later semiannual compounding periods. In the case of an original or a subsequent holder of a Bond, the amount of OID which is treated as having accrued with respect to such Bond during the period that the holder has held it (a) is not included in the gross income of the holder for Federal income tax purposes, and (b) is included in the cost basis of the holder in determining, for Federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). Holders of Series 2011 Bonds should consult their tax advisors with respect to the determination, for Federal income tax purposes, of OID accrued upon the sale, redemption or payment at maturity of the Series 2011 Bonds.

Prospective purchasers of the Series 2011 Bonds should consider possible state and local, excise, or franchise tax consequences arising from original issue discount on the Series 2011 Bonds. In addition, prospective corporate purchasers of the Series 2011 Bonds should consider possible federal income tax consequences arising from original issue discount on the Series 2011 Bonds under the alternative minimum tax and the branch profits tax described above.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Series 2011 Bonds, if enacted, could alter or amend one or more of the federal tax matters referred to above and/or adversely affect the market value of the Series 2011 Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to obligations issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Series 2011 Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

The Internal Revenue Service (the "Service") has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for Federal income tax purposes. If the Service does audit the Series 2011 Bonds, under current Service procedures, the Service will treat the Issuer as the taxpayer and the owners of the Series 2011 Bonds will have only limited rights, if any, to participate.

Interest paid on tax-exempt obligations is subject to information reporting for federal income tax purposes in a manner similar to interest paid on taxable obligations. This reporting requirement does not in and of itself affect or alter the excludability of such interest from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete. Prospective purchasers and holders of the Series 2011 Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

Maryland State and Local Income Tax

In the opinion of Bond Counsel, under existing law of the State of Maryland, the interest on the Obligations and the profit realized from the sale or exchange of the Obligations is exempt from income taxation by the State of Maryland or by any of its political subdivisions; but no opinion is expressed as to estate or inheritance taxes or any other taxes not levied or assessed directly on the Obligations or the income therefrom.

Interest on the Obligations may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Obligations should consult their tax advisors with respect to the state and local tax consequences of owning the Obligations and regarding the taxable status of the Obligations in a particular state or local jurisdiction other than the State of Maryland.

CERTIFICATION

The Issuer will furnish a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statement made herein, in light of the circumstances under which they were made, not misleading.

NO LITIGATION

There is no litigation now pending or, to the knowledge of Issuer Officials, threatened which questions the validity of the Obligations or of any proceedings of the Issuer taken with respect to the issuance or sale thereof.

LEGAL MATTERS

All matters incident to the authorization and issuance of the Obligations are subject to the approval of Venable LLP, Baltimore, Maryland, Bond Counsel. The form of the approving legal opinion is attached hereto as Appendix B. Bond Counsel has not participated in the preparation of this Official Statement, except for the section entitled "Tax Matters." The factual and financial information appearing herein has been supplied or reviewed by certain officials of the Issuer and its certified public accountants, as referred to herein, and Bond Counsel expresses no opinion as to the accuracy or sufficiency thereof.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and are not representations of fact, and no representation is made that any of the estimates will be realized.

This Official Statement has been approved by the Issuer for distribution by the Chief Financial Officer to prospective purchasers of the Obligations.

MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND

By: /s/ Mr. Gavin Cohen
Chief Financial Officer

APPENDIX A

**Excerpts from the Comprehensive
Annual Financial Report
Year Ended June 30, 2010**

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City of Rockville, Maryland

Balance Sheet Governmental Funds June 30, 2010

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash and cash equivalents	\$ 8,992,589	\$ 2,456,404	\$ 15,593,876	\$ 7,114,754	\$ 34,157,623
Property taxes receivable, net	201,411	-	-	-	201,411
Accounts receivable, net	249,337	-	-	884,380	1,133,717
Interfund receivable	8,686,992	-	-	-	8,686,992
Due from other governments	1,670,326	-	276,625	247,630	2,194,581
Other assets	758,215	20,427	652	393	779,687
Unbilled assessments receivable	-	884,610	-	-	884,610
Total assets	<u>\$ 20,558,870</u>	<u>\$ 3,361,441</u>	<u>\$ 15,871,153</u>	<u>\$ 8,247,157</u>	<u>\$ 48,038,621</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,701,530	\$ -	\$ 407,778	\$ 327,478	\$ 2,436,786
Interfund payable	-	-	-	215,651	215,651
Accrued liabilities	1,156,707	-	-	9,392	1,166,099
Deferred revenue	201,411	884,610	202,067	-	1,288,088
Unearned revenue	1,022,051	-	-	-	1,022,051
Retainages payable	-	-	244,685	17,176	261,861
Deposits and other liabilities	1,188,322	-	-	-	1,188,322
Total liabilities	<u>\$ 5,270,021</u>	<u>\$ 884,610</u>	<u>\$ 854,530</u>	<u>\$ 569,697</u>	<u>\$ 7,578,858</u>
Fund balances					
Reserved for encumbrances	\$ 450,389	\$ -	\$ 573,895	\$ -	\$ 1,024,284
Reserved for self insurance deposit	261,394	-	-	-	261,394
Reserved for inventory	295,599	-	-	-	295,599
Reserved for advance	250,000	-	-	-	250,000
Reserved for debt service	-	2,476,831	-	-	2,476,831
Unreserved, designated for, reported in:					
Special Revenue Funds	-	-	-	3,536,455	3,536,455
Unreserved, undesignated reported in:					
General Fund	14,031,467	-	-	-	14,031,467
Capital Projects Fund	-	-	14,442,728	-	14,442,728
Special Revenue Funds	-	-	-	4,141,005	4,141,005
Total fund balance	<u>\$ 15,288,849</u>	<u>\$ 2,476,831</u>	<u>\$ 15,016,623</u>	<u>\$ 7,677,460</u>	<u>\$ 40,459,763</u>
Total liabilities and fund balance	<u>\$ 20,558,870</u>	<u>\$ 3,361,441</u>	<u>\$ 15,871,153</u>	<u>\$ 8,247,157</u>	<u>\$ 48,038,621</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities June 30, 2010

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balances - governmental funds	\$	40,459,763
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of capital assets	292,315,598	
Accumulated depreciation	<u>(54,358,058)</u>	237,957,540

Deferred revenues are not financial resources in the governmental funds, therefore the liability is eliminated and total net assets are increased		1,288,088
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities as of year-end consist of:

Compensated absences	4,274,366	
General obligation bonds payable and issuance costs	36,730,771	
Accrued interest on the general obligation bonds	<u>238,603</u>	<u>(41,243,740)</u>

Total net assets - governmental activities	\$	<u><u>238,461,651</u></u>
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See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds For the Fiscal Year Ended June 30, 2010

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenue					
Property Taxes	\$ 35,454,838	\$ -	\$ -	\$ -	35,454,838
Assessments	-	358,924	-	-	358,924
Revenue from other governments:					
Community development block grant	-	-	-	336,574	336,574
Income taxes	10,306,947	-	-	-	10,306,947
Gas and motor vehicles taxes	325,985	-	-	-	325,985
County tax duplication payment	2,228,449	-	-	-	2,228,449
Admission and amusement taxes	1,006,370	-	-	-	1,006,370
Grants and other governmental revenue	1,531,670	-	3,539,487	-	5,071,157
Licenses and permits	1,737,186	-	-	-	1,737,186
Charges for services	5,766,551	-	-	-	5,766,551
Use of money and property	186,255	2,231	11,530	4,355	204,371
Fines and forfeitures	687,733	-	-	-	687,733
Other revenue	2,735,757	-	1,683,691	3,521,562	7,941,010
Total revenue	<u>\$ 61,967,741</u>	<u>\$ 361,155</u>	<u>\$ 5,234,708</u>	<u>\$ 3,862,491</u>	<u>\$ 71,426,095</u>
Expenditures					
Current operations:					
General government	\$ 14,175,052	-	-	\$ -	\$ 14,175,052
Community development block grant	-	-	-	336,574	336,574
Community development	3,866,116	-	-	-	3,866,116
Public safety	8,540,236	-	-	2,458,677	10,998,913
Public works	7,107,065	-	-	-	7,107,065
Recreation and parks	19,245,099	-	-	1,068,957	20,314,056
Capital outlay	-	-	8,071,573	-	8,071,573
Debt service	-	5,036,108	-	-	5,036,108
Total expenditures	<u>\$ 52,933,568</u>	<u>\$ 5,036,108</u>	<u>\$ 8,071,573</u>	<u>\$ 3,864,208</u>	<u>\$ 69,905,457</u>
Excess (deficiency) of revenue over expenditures	<u>\$ 9,034,173</u>	<u>\$ (4,674,953)</u>	<u>\$ (2,836,865)</u>	<u>\$ (1,717)</u>	<u>\$ 1,520,638</u>
Other Financing Sources (Uses)					
Transfers in	-	4,000,000	2,378,000	144,266	6,522,266
Transfers out	(7,402,266)	-	-	-	(7,402,266)
Total other financing sources (uses)	<u>\$ (7,402,266)</u>	<u>\$ 4,000,000</u>	<u>\$ 2,378,000</u>	<u>\$ 144,266</u>	<u>\$ (880,000)</u>
Net change in fund balances	\$ 1,631,907	\$ (674,953)	\$ (458,865)	\$ 142,549	\$ 640,638
Adjustments to beginning balance	51,566	-	1,358,089	(1,394,472)	15,183
Fund balances at beginning of year, as previously reported	13,605,376	3,151,784	14,117,399	8,929,383	39,803,942
Fund balances at end of year	<u>\$ 15,288,849</u>	<u>\$ 2,476,831</u>	<u>\$ 15,016,623</u>	<u>\$ 7,677,460</u>	<u>\$ 40,459,763</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2010

Amounts reported for governmental activities in the Statement of Activities are different because:

Total net change in fund balances-total governmental funds	\$ 640,638
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Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlays of \$9,299,116 exceeded depreciation of (\$2,207,586).	7,091,530
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Repayment of bonds principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

	3,464,030
--	-----------

Because the deferred revenue will not be collected for several months after the City's fiscal year ends, it is not considered "available" revenue in the governmental funds. Deferred revenue decreased in the current year.

	(57,954)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.

	(257,392)
--	-----------

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave earned of \$607,830 exceeded amounts used of \$545,894.

	(61,936)
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as interest accrues, regardless of when it is due. The decrease interest reported in the Statement of Activities is the result of accrued interest on the financing agreements.

	21,808
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Change in net assets of governmental activities	
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	<u>\$ 10,840,724</u>
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See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Rockville (the "City"), was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. The City has an estimated population of 64,860 and a land area of 13.50 square miles. According to the 2000 census, the City is the third largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large council members. Services provided include water, sewer, refuse, parking, streets and drainage, recreation and parks, police, planning and zoning, community development, and community services. Schools, libraries, social services, and fire protection are provided by Montgomery County, Maryland.

For financial reporting purposes, the government-wide financial statements include the various departments governed directly by the Mayor and Council. The City's officials are also responsible for appointing the board of directors of the Rockville Housing Authority, but the City's accountability does not extend beyond making the appointments, therefore the housing authority is not included in the financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all the nonfiduciary activities of the primary government. Mostly all the effects of interfund activities have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities. Business-type activities rely significantly on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns on the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are deemed collectible within the current period or soon thereafter to pay the liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue in the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* is used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

The City operates six major types of enterprise funds: The Water Facility Fund, the Sanitary Sewer Fund, the Refuse Fund, the Parking Fund, the Stormwater Management Fund, and the RedGate Golf Course Fund. These funds account for the provision of water and sewer services, parking meter program, operation of the parking garages in the City's Town Center and storm water retention facilities to residents within the City's service area. The Refuse Fund and RedGate Golf Course Fund do not meet the requirements of a major fund, however management has elected to report these funds as major. The Refuse Fund accounts for trash collections and recycling. The RedGate Golf Course fund accounts for the operating and capital costs for the City's golf course facility.

Additionally, the government reports the following fund types:

The City's Pension Trust Funds accounts for the contributions made by the City and its employees to finance future pension payments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, but interfund services provided and used are not eliminated in the process of consolidation.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services, producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sanitary Sewer, Refuse, and Stormwater Management funds are charges to customers for sales and services. The Water and Sanitary Sewer funds also recognize the portion of tap fees intended to recover the cost of connecting new customers to the system as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to first use restricted resources, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account. The Pension Trust Fund assets are separately managed by the City's retirement board. The Pension Trust Fund investments are stated at fair value. Short-term investments of one year or less which are included in the City's equity in pooled cash and cash equivalents are stated at amortized cost plus accrued interest. These short-term investments include mutual funds and U.S. Treasury securities.

For purposes of the statement of cash flows, the proprietary fund type reflects all monies in the City's cash management pool as cash equivalents.

Interest income earned on City investments is allocated among the funds each month on a pro-rata basis in accordance with average equity in pooled cash balances for the previous six months.

2. Property Taxes

Taxes on real property and business personal property are levied on property values as assessed on January 1, billed on July 1, and payable either by September 30 or in two equal installments on September 30 and December 31. Montgomery County bills and collects property taxes for the City and remits the cash collections once a month. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1 and are, thereafter, sold at public auction if deemed delinquent.

Real and personal property taxes are levied at rates enacted by the Mayor and Council in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rate of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public hearings.

The real property tax rate was \$0.292 per \$100 of assessed value and the personal property tax rate was \$.805 per \$100 of assessed value in fiscal year 2010. The City charges taxpayers interest (at the rate of 2/3 of 1 percent per month) and penalty (1 percent per month) on all overdue taxes.

3. Inventories and Prepaid Items

All City inventories (included in other assets in the governmental fund balance sheet) are maintained on a consumption

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Inventories and Prepaid Items (Continued)

basis of accounting and are valued at cost on a first-in, first-out basis and consist of either goods held for resale or goods and materials used in providing services. Reservations of fund balance for the amounts of General Fund inventories have been made to reflect the non-availability of those amounts for appropriation in the General Fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Net Assets

The Debt Service Fund is used to segregate resources accumulated for debt service payments for future years.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Reservation of fund balance in the Capital Projects Fund for construction have been made to reflect the non-availability of those amounts for appropriation in the Capital Projects Fund.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The capitalization threshold for infrastructure items is \$25,000. GASB 34 requires prospective reporting of all infrastructure assets acquired after June 30, 2002. It has also required that all infrastructure assets that were acquired after June 30, 1980 be reported for fiscal years beginning after June 15, 2006. The City is in compliance with this requirement and has previously capitalized infrastructure assets acquired after June 30, 2002.

Property, plant, and equipment of the primary government are depreciated over their useful lives using the straight-line method of depreciation in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The following are estimated useful lives:

Description	Lives (In Years)
Buildings	40 - 50
Equipment	5 - 10
Furniture and fixtures	7 - 10
Automobiles and trucks	5 - 7
Water and sewer infrastructure	20 - 50
Stormwater management facilities	20 - 50
Purchase capacity	50

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused annual and sick leave benefits. All annual leave and sick leave is accrued when incurred in the government-wide and proprietary financial statements. An expenditure for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current fiscal period. The face amount of debt issued is reported net of any bond premiums/discounts.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Reservations of fund balance in the Debt Service Fund for the amount of debt service in due within one year have been made to reflect non-availability for those amounts for appropriation in the Debt Service Fund.

8. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as “due to/from other funds” or “interfund receivable/payable”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “Internal Balances”.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances are not legally required segregations, but rather represent the intent of the City's administration to use fund balances for specific purposes in the future. The designated fund balance of the Automated Speed Enforcement Fund is designated for funding traffic and pedestrian safety.

Encumbrances related to grant-funded contracts may cause a deficit in the undesignated fund balance in some funds. This results from a timing difference between the recording of the original encumbrance of the contract and the recognition of the grant revenue when it is measurable and available.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds of \$543,165. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

When an expense is incurred for which both restricted and unrestricted net assets are available, the City will first apply restricted resources when an expense is incurred.

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2010

(2) Detailed Notes On All Funds

A. Equity in Pooled Cash and Cash Equivalents

The City maintains cash and investment pool that is available for use by all of the City's funds, except the Pension Trust Fund. The City is restricted by State law to invest in any federally insured bank in the State of Maryland, federally insured savings and loan associations in the State of Maryland, or in the local government investment pool. The City primarily invests in the MLGIP.

As of June 30, 2010, the City had the following deposits and investments included as equity in pooled cash and cash equivalents in the Statement of Net Assets and the Statement of Fiduciary Net Assets:

Investment Type	Fair Value
Deposits	\$ 231,894
Maryland Treasurer's Investment Pool	17,697,722
Money Market Funds	15,016,072
Federal Agency Discount Notes	9,510,000
	<hr/>
	\$ 42,455,688
Open End Mutual Funds	66,999,825
Total Fair Market Value of Investments	<hr/> <hr/>
	\$ 109,455,513

Deposits:

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Maryland State Law prescribes that local government units, such as the City, must deposit its cash in banks which transact business in the State of Maryland. Such banks must also, secure any deposits in excess of the Federal Depository Insurance Corporation insurance levels with collateral whose market value is at the least equal to the deposits. As of June 30, 2010, all the City's deposits were either covered by federal depository insurance or covered by collateral held in the pledging banks trust department in the City's name.

Investments:

Credit Risk: The Mayor and Council of Rockville recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the Annotated Code of Maryland. Authority to invest City funds in compliance and provisions of these State statutes is delegated to the Director of Finance. The City invests in Money Market Funds that are rated "AAA" by Standard and Poor's. The City's federal agency discount notes FHLMC, FHLB, and FNMA are rated A-1+ by Standard and Poor's, and the City's longer term Federal Agency Note FHLMC is rated AAA by Standards and Poor's, Fitch and Moody's. All City investments must receive one of the highest ratings from at least one of the national recognized statistical organizations, except for obligations which are backed by full credit of the US Government, obligations of federal agency, or an instrumentality that has been issued in accordance with acts of Congress and unrated. The City also invests in the Maryland Local Government Investment Pool (MLGIP), which is under control of the Maryland State Treasurer's Office. The MLGIP is "AAA" by Standard and Poor's.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is minimized due to the fact that all authorized investments have a maximum allowable maturity of two years from the date of purchase as stated in section XII of the City's investment policy. The money market funds and open-end mutual funds are highly liquid with no fixed maturity and therefore do not expose the City to interest rate risk.

Custodial Credit Risk: Custodial credit risk for investments is the risk that in the event of failure of a depository financial institution or counterparty to a transaction, the City will not recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial credit risk at June 30, 2010.

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2010

(2) Detailed Notes On All Funds (Continued)

B. Receivables

Receivables as of the year end June 30, 2010 for all the government's individual funds are as follows:

Receivables	General	Debt Service	Capital Projects	Other Governmental Funds	Water	Sewer	Refuse	Parking	Stormwater Management	RedGate Golf Course	Total
Billed / Unbilled Utilities	-	-	-	-	2,286,722	1,297,973	1,298,633	1,594,717	431,667	4,579	\$ 6,914,291
Property Taxes Receivable, net	201,411	-	-	-	-	-	-	-	-	-	\$ 201,411
Assessments Receivable	-	-	-	-	759	-	-	-	-	-	\$ 759
Accounts Receivable, net	249,337	-	-	884,380	-	-	-	-	-	-	\$ 1,133,717
Interfund Receivable	8,686,992	-	-	-	-	-	-	-	-	-	\$ 8,686,992
Due from Other Governments	1,670,326	-	276,625	247,630	-	-	-	-	-	-	\$ 2,194,581
Other Assets/Receivables	758,215	20,427	652	393	-	-	126	205	248	-	\$ 780,266
Unbilled Assessments Receivable	-	884,610	-	-	14,417	15,929	-	-	-	-	\$ 914,956

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounts to \$1,137,308 at June 30, 2010, and is composed of the following:

General Fund property taxes receivable	\$ 707,059
Other Governmental Funds violations receivable	76,427
Enterprise Funds meter violations receivable	325,667
Enterprise Funds utility bills receivable	28,155
	<u>\$ 1,137,308</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Deferred	Unearned
Delinquent property taxes receivable (General Fund)	\$ 201,411	\$ -
Special assessments not yet due (Debt Service Fund)	884,610	-
Federal grant revenue (Capital Projects Fund)	202,067	-
Recreation services not earned (General Fund)	-	1,022,051
Total deferred/unearned revenue for governmental funds	<u>\$ 1,288,088</u>	<u>\$ 1,022,051</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2010

(2) Detailed Notes On All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 7,843,832	\$ -	\$ -	\$ -	\$ 7,843,832
Construction in progress	97,987,095	8,774,328	-	(11,894,735)	94,866,688
Total capital assets, not being depreciated	<u>\$ 105,830,927</u>	<u>\$ 8,774,328</u>	<u>\$ -</u>	<u>\$ (11,894,735)</u>	<u>\$ 102,710,520</u>
Capital assets, being depreciated:					
Buildings	31,392,846	-	-	7,455,520	38,848,366
Improvements other than buildings	5,599,612	-	-	587,144	6,186,756
Equipment	13,052,842	524,788	-	2,878,173	16,455,803
Infrastructure	127,140,255	-	-	973,898	128,114,153
Total capital assets being depreciated	<u>\$ 177,185,555</u>	<u>\$ 524,788</u>	<u>\$ -</u>	<u>\$ 11,894,735</u>	<u>\$ 189,605,078</u>
Less accumulated depreciation for:					
Buildings	(8,948,374)	(727,780)	-	-	(9,676,154)
Improvements other than buildings	(2,394,547)	(173,406)	-	-	(2,567,953)
Equipment	(7,777,078)	(986,614)	-	-	(8,763,692)
Infrastructure	(33,030,473)	(319,786)	-	-	(33,350,259)
Total accumulated depreciation	<u>\$ (52,150,472)</u>	<u>\$ (2,207,586)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (54,358,058)</u>
Total capital assets, being depreciated, net	<u>125,035,083</u>	<u>(1,682,798)</u>	<u>-</u>	<u>11,894,735</u>	<u>135,247,020</u>
Governmental activities capital assets, net	<u><u>\$ 230,866,010</u></u>	<u><u>\$ 7,091,530</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 237,957,540</u></u>
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 2,058,940	-	\$ -	\$ -	\$ 2,058,940
Construction in progress	35,577,812	12,420,947	-	(30,640,045)	17,358,714
Total capital assets, not being depreciated	<u>\$ 37,636,752</u>	<u>\$ 12,420,947</u>	<u>\$ -</u>	<u>\$ (30,640,045)</u>	<u>\$ 19,417,654</u>
Capital assets, being depreciated:					
Buildings	31,604,199	-	-	-	31,604,199
Improvements other than buildings	72,101,222	-	-	30,640,045	102,741,267
Equipment	7,701,382	654,206	(38,198)	-	8,317,390
Purchased capacity	15,279,453	-	-	-	15,279,453
Total capital assets being depreciated	<u>\$ 126,686,256</u>	<u>\$ 654,206</u>	<u>\$ (38,198)</u>	<u>\$ 30,640,045</u>	<u>\$ 157,942,309</u>
Less accumulated depreciation for:					
Buildings	(4,916,046)	(730,906)	-	-	(5,646,952)
Improvements other than buildings	(35,505,270)	(1,628,347)	-	-	(37,133,617)
Equipment	(5,201,922)	(600,151)	38,198	-	(5,763,875)
Purchased capacity	(2,361,474)	(305,589)	-	-	(2,667,063)
Total accumulated depreciation	<u>\$ (47,984,712)</u>	<u>\$ (3,264,993)</u>	<u>\$ 38,198</u>	<u>\$ -</u>	<u>\$ (51,211,507)</u>
Total capital assets, being depreciated, net	<u>78,701,544</u>	<u>(2,610,787)</u>	<u>-</u>	<u>30,640,045</u>	<u>106,730,802</u>
Business-type activities capital assets, net	<u><u>\$ 116,338,296</u></u>	<u><u>\$ 9,810,160</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 126,148,456</u></u>

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2010

(2) Detailed Notes On All Funds (Continued)

C. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	737,246
Community Development	14,729
Public Safety	59,514
Public Works	663,638
Recreation and Parks	732,459
Total depreciation expense - governmental activities	<u>\$ 2,207,586</u>
Business-Type Activities:	
Water	\$ 1,070,232
Sewer	900,717
Refuse	304,053
Parking	683,328
Stormwater Management	187,562
Golf Course	119,101
Total depreciation expense - business-type activities	<u>\$ 3,264,993</u>

D. Interfund Payables and Transfers

The governmental interfund payable as of June 30, 2010 consists of the following:

	Interfund Payable Total
Governmental Funds:	
Community Development Block Grant Fund	\$ 122,248
Town Center Management District	93,403
Proprietary Funds:	
Water Facility Fund	3,432,866
Sanitary Sewer Fund	3,628,966
RedGate Golf Course Fund	1,409,509
Total	<u>\$ 8,686,992</u>

The interfund payables from various funds represent cash overdrafts that are payable to the General Fund within one year.

Interfund transfers for the year ended June 30, 2010 consisted of the following:

<u>Transfer To:</u>	
Capital Project Fund	\$ 2,378,000
Debt Service Fund	4,000,000
Special Activities Fund	144,266
Refuse Fund	30,000
Parking Fund	850,000
	<u>\$ 7,402,266</u>

Transfer from the General Fund to the Capital Projects Fund represents the City's budgeted pay-as-you-go funding.

Transfer from the General Fund to the Debt Service Fund represents resources to pay off general obligation bonds.

Transfer from the General Fund to the Special Activities Fund represents resources for Art in Public Places.

Transfer from the General Fund to the Refuse Fund represents refuse pickup for Rockville Housing Enterprises.

Transfer from the General Fund to the Parking Fund represents resources to pay off general obligation bonds.

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2010

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt

General Obligation Bonds, Bond Anticipation Notes and Loan Payable

A loan was awarded to the City for \$998,100 from American Recovery and Reinvestment Act (ARRA) Funds through Maryland Department of the Environment (MDE) in December 2009. This is a revolving loan that was awarded to the City for improvements to Woodley Gardens Park, of which \$227,626 of proceeds were received prior to June 30, 2010, which is recognized as grant revenue.

General obligation bonds are direct city obligations in which the full faith and credit of the government is pledged. These bonds generally are issued as 20-30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds and loan payable currently outstanding are as follows:

	Year of Issuance	Outstanding Principal	Interest Rate Range	Year of Final Maturity
Governmental Activities				
General Improvements	1998	\$ 470,000	3.50 - 4.30%	2013
General Improvements	2002	1,477,979	4.00 - 4.65%	2021
General Improvements	2003	6,570,039	2.00 - 3.85%	2023
General Improvements - Refunding	2003	809,286	2.00 - 3.00%	2013
General Improvements	2004	7,980,000	4.00 - 5.00%	2029
Loan Payable	2005	178,467	2.00%	2012
General Improvements	2005	10,405,000	3.50 - 6.00%	2025
General Improvements	2007	8,840,000	4.00 - 4.25%	2027
Total Governmental Activities		<u>\$ 36,730,771</u>		
Business-Type Activities				
General Improvements	1999	\$ 1,476,098	3.21%	2019
General Improvements	2000	1,175,569	3.64%	2020
General Improvements	2002	2,421,658	1.90%	2023
General Improvements	2002	1,877,021	4.00 - 4.65%	2021
General Improvements	2003	2,134,961	2.00 - 3.875%	2023
General Improvements - Refunding	2003	330,714	2.00 - 3.00%	2013
General Improvements	2004	6,155,000	4.00 - 5.00%	2029
General Improvements	2005	1,089,945	0.00%	2025
General Improvements	2005	36,685,000	3.50% - 6.00%	2036
General Improvements	2007	8,850,000	4.00 - 4.25%	2027
General Improvements	2008	11,490,000	3.00 - 4.50%	2028
Total Business-Type Activities		<u>\$ 73,685,966</u>		

The City anticipates that all amounts required for payment of interest and principal on business-type activities debt will be provided from the respective fund's revenues; however, the bonds are further secured by the full faith and credit and unlimited taxing power of the City.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

Unamortized bond discount is not included in outstanding principal for business-type activities.
The amount for outstanding principal consists of the following:

Business-type activities long-term outstanding debt	\$73,685,966
Business-type activities unamortized bond discount	(331,415)
	<u>\$73,354,551</u>

The City's long-term debt for governmental activities are payable during the future years as follows:

Governmental Activities			
Fiscal Year Ending June 30,	Principal	Interest	Total Principal and Interest
2011	3,007,298	1,451,286	4,458,584
2012	2,982,120	1,345,920	4,328,040
2013	2,742,536	1,239,826	3,982,362
2014	2,425,061	1,136,055	3,561,116
2015	2,425,061	1,043,706	3,468,767
2016	2,425,061	953,354	3,378,415
2017	2,425,061	856,311	3,281,372
2018	2,425,061	758,222	3,183,283
2019	2,425,061	660,729	3,085,790
2020	2,425,061	562,662	2,987,723
2021	2,425,140	463,455	2,888,595
2022	2,286,347	363,280	2,649,627
2023	2,281,903	268,875	2,550,778
2024	1,780,000	172,525	1,952,525
2025	1,210,000	94,113	1,304,113
2026	520,000	44,200	564,200
2027	520,000	22,100	542,100
Total	<u>\$ 36,730,771</u>	<u>\$ 11,436,619</u>	<u>\$ 48,167,390</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

The City's long-term debt for business type activities are payable during future years as follows:

Business-Type Activities

Fiscal Year Ending June 30,	Water Facility		Sanitary Sewer		Refuse		Parking		RedGate Golf Course		Stormwater Management		Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2011	1,671,866	755,168	1,183,565	649,780	375,000	101,700	735,000	1,387,511	24,803	10,869	72,663	-	6,967,925
2012	1,677,024	702,997	1,176,752	606,761	375,000	86,800	760,000	1,361,061	24,803	10,162	72,663	-	6,854,023
2013	1,652,561	650,638	1,142,687	563,496	375,000	71,900	785,000	1,333,711	24,804	9,418	72,663	-	6,681,878
2014	1,634,834	597,198	1,110,135	519,209	375,000	56,900	820,000	1,302,312	24,803	8,674	72,663	-	6,521,728
2015	1,642,289	543,406	1,105,136	475,688	365,000	41,900	850,000	1,269,512	24,803	7,930	72,663	-	6,398,327
2016	1,660,117	490,302	1,105,136	433,594	345,000	27,400	885,000	1,238,699	24,804	7,156	72,663	-	6,289,871
2017	1,673,332	423,239	1,105,136	388,356	340,000	13,600	920,000	1,201,086	24,804	6,349	72,663	-	6,168,565
2018	1,437,863	351,531	1,100,135	342,841	-	-	960,000	1,161,894	24,803	5,505	72,663	-	5,457,235
2019	1,170,964	299,628	1,100,136	298,055	-	-	1,000,000	1,122,714	24,803	4,637	72,663	-	5,093,600
2020	993,966	251,682	1,100,135	253,044	-	-	1,040,000	1,081,894	24,803	3,744	72,663	-	4,821,931
2021	860,350	212,462	1,100,370	207,673	-	-	1,080,000	1,039,244	24,804	2,827	72,663	-	4,600,393
2022	864,157	185,110	924,518	162,063	-	-	1,125,000	994,669	24,803	1,896	72,663	-	4,354,879
2023	863,058	157,741	923,478	124,417	-	-	1,175,000	948,059	24,618	954	72,664	-	4,289,989
2024	724,060	119,213	785,000	86,301	-	-	1,220,000	898,609	-	-	72,664	-	3,905,847
2025	655,000	91,594	650,000	52,737	-	-	1,275,000	846,053	-	-	72,664	-	3,643,048
2026	480,000	63,375	305,000	25,924	-	-	1,330,000	791,140	-	-	-	-	2,995,439
2027	480,000	42,375	305,000	12,962	-	-	1,390,000	733,040	-	-	-	-	2,963,377
2028	475,000	21,375	-	-	-	-	1,450,000	672,300	-	-	-	-	2,618,675
2029	-	-	-	-	-	-	1,515,000	608,350	-	-	-	-	2,123,350
2030	-	-	-	-	-	-	1,580,000	541,525	-	-	-	-	2,121,525
2031	-	-	-	-	-	-	1,645,000	474,375	-	-	-	-	2,119,375
2032	-	-	-	-	-	-	1,715,000	404,463	-	-	-	-	2,119,463
2033	-	-	-	-	-	-	1,790,000	331,575	-	-	-	-	2,121,575
2034	-	-	-	-	-	-	1,865,000	255,500	-	-	-	-	2,120,500
2035	-	-	-	-	-	-	1,945,000	173,906	-	-	-	-	2,118,906
2036	-	-	-	-	-	-	2,030,000	88,813	-	-	-	-	2,118,813
Total	\$20,616,441	\$ 5,959,034	\$16,222,319	\$ 5,202,901	\$ 2,550,000	\$ 400,200	\$32,885,000	\$22,262,015	\$ 322,258	\$ 80,121	\$ 1,089,948	\$ -	\$107,590,237

Note: Principal amounts do not include net unamortized bond (discount)/premium of \$21,885 for business-type activities.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

The requirements for long-term debt are summarized as follows:

Governmental Activities

Fiscal Year Ending June 30,	Principal	Interest	Total Principal and Interest
2011	3,007,298	1,451,286	4,458,584
2012	2,982,120	1,345,920	4,328,040
2013 - 2017	12,442,780	5,229,252	17,672,032
2018 - 2022	11,986,670	2,808,348	14,795,018
2023 - 2027	6,311,903	601,813	6,913,716
<u>Total</u>	<u>\$ 36,730,771</u>	<u>\$ 11,436,619</u>	<u>\$48,167,390</u>

Business-Type Activities

Fiscal Year Ending June 30,	Water Facility		Sanitary Sewer		Refuse		Parking		RedGate Golf Course		Stormwater Management		Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Interest
2011	1,671,866	755,168	1,183,565	649,780	375,000	101,700	735,000	1,387,511	24,803	10,869	72,663	-	6,967,925
2012	1,677,024	702,997	1,176,752	606,761	375,000	86,800	760,000	1,361,061	24,803	10,162	72,663	-	6,854,023
2013 - 2017	8,263,133	2,704,783	5,568,230	2,380,343	1,800,000	211,700	4,260,000	6,345,320	124,018	39,527	363,315	-	32,060,369
2018 - 2022	5,327,300	1,300,413	5,325,294	1,263,676	-	-	5,205,000	5,400,415	124,016	18,609	363,315	-	24,328,038
2023 - 2027	3,202,118	474,298	2,968,478	302,341	-	-	6,390,000	4,216,901	24,618	954	217,992	-	17,797,700
2028 - 2032	475,000	21,375	-	-	-	-	7,905,000	2,701,013	-	-	-	-	11,102,388
2033 - 2037	-	-	-	-	-	-	7,630,000	849,794	-	-	-	-	8,479,794
Total	\$ 20,616,441	\$ 5,959,034	\$ 16,222,319	\$ 5,202,901	\$ 2,550,000	\$ 400,200	\$ 32,885,000	\$ 22,262,015	\$ 322,258	\$ 80,121	\$ 1,089,948	\$ -	\$ 107,590,237

Note: Principal amounts do not include net unamortized bond (discount) /premium of \$21,885 for business-type activities.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(2) Detailed Notes On All Funds (Continued)

E. Long-Term Debt (Continued)

Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2010, \$264,600 of bonds outstanding relating to general obligations that were accounted for within the governmental activities group are considered defeased. In accordance with the applicable bond indentures, the trustees will continue to extinguish the defeased debt until 2011.

Changes in Long-Term Liabilities

The following is a summary of changes in the City's long-term debt for the year ended June 30, 2010:

	Balance as of 6/30/09	Additions	Reductions	Net Amortization of Bond Discount/ Premium	Balance as of 6/30/10	Remaining Unamortized Bond (Discount) / Premium 6/30/10	Due within One Year
<u>Governmental Activities</u>							
General obligation bonds	\$ 39,930,132	\$ -	\$ (3,380,354)	\$ -	\$ 36,549,778		\$ 3,036,859
Loan payable-CELP	264,670	-	(83,677)	-	180,993	-	87,938
Accrued obligations for compensated absences	4,212,430	607,830	(545,894)	-	4,274,366	-	3,120,288
Governmental activity long-term liabilities	<u>\$ 44,407,232</u>	<u>\$ 607,830</u>	<u>\$ (4,009,925)</u>	<u>\$ -</u>	<u>\$ 41,005,137</u>	<u>\$ -</u>	<u>\$ 6,245,085</u>
<u>Business-type Activities</u>							
General obligation bonds							
Water facility fund	22,195,603	-	(1,754,339)	6,809	20,448,073	117,591	1,671,866
Sanitary sewer fund	17,426,231	-	(1,236,555)	2,054	16,191,730	(14,506)	1,183,565
Refuse fund	2,926,785	-	(375,000)	1,775	2,553,560	11,776	375,000
Parking fund	33,588,947	-	(710,000)	(3,685)	32,875,262	(91,987)	735,000
Stormwater management fund	1,088,948	-	(72,663)	-	1,016,285	-	72,663
RedGate golf course fund	345,996	-	(24,803)	(76)	321,117	(989)	24,803
Accrued obligations for compensated absences	815,472	99,304	(41,903)	-	872,873	-	637,197
Business-type activity long-term liabilities	<u>\$ 78,387,982</u>	<u>\$ 99,304</u>	<u>\$ (4,215,263)</u>	<u>\$ 6,877</u>	<u>\$ 74,278,900</u>	<u>\$ 21,885</u>	<u>\$ 4,700,094</u>

Notes:

- The compensated absences in the governmental activities will be paid out of the General Fund.
- The long-term debt balance as of 6/30/10 for business-type activities includes the cumulative net amortization of bond (Discount)/Premium in the amount of \$279,393.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

F. Restricted Assets

The balances of the restricted asset accounts in the proprietary funds are as follows:

Reserved for debt payment – Water Facility	\$1,671,866
Reserved for debt payment –Sanitary Sewer	\$1,183,565
Reserved for debt payment – Refuse	\$375,000
Reserved for debt payment – Parking	\$735,000
Reserved for debt payment – Stormwater Management	\$72,663
Reserved for debt payment – RedGate Golf Course	\$24,803

G. Operating Leases

The City entered into a ten year office lease which began on June 1, 2004, and expires on May 31, 2014. Total annual rent is \$94,800, with an annual rent increase of 3% for each year, thereafter. The City also has a five year office lease which began on June 1, 2008 and expires on May 31, 2013. Total annual rent is \$101,551 with an annual rent increase of 3% each year thereafter.

Year	Rent Amount
2011	224,328
2012	231,058
2013	237,990
2014	127,404
Total	<u>\$ 820,780</u>

The City leased the Arts and Innovations Center to VisArts under a 20 year lease which began on August 1, 2007 and expires on June 30, 2027. The rental income for the months beginning August 1, 2007 through July 1, 2008 were abated and the base rent for that year will be allocated over lease years 2009, 2010, and 2011. The City began receiving monthly income for this lease on August 1, 2008.

Year	Rent Amount
2011	36,651
2012	28,138
2013	28,982
2014	29,851
2015	30,747
2016	31,669
2017	32,619
2018	33,598
2019	34,606
2020	35,644
2021	36,713
2022	37,815
2023	38,949
2024	40,118
2025	41,321
2026	42,561
2027	43,838
Total	<u>\$ 603,820</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(3) Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters; and employee health benefits.

The City participates in the Montgomery County Liability and Property Coverage self-insurance fund, under which participants share coverage for worker's compensation, comprehensive general, automobile and professional liability, fire and theft, and the liability for errors, omissions and other selected areas that require coverage. The Montgomery County Division of Risk Management is the administrator of the fund. The City pays an annual premium to Montgomery County for its insurance coverage.

The City continues to carry commercial insurance for employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Prior Period Adjustment and Individual Fund Disclosure

The Town Center Management District Fund currently has a deficit of \$184,272 which is shown on the Combining Statement of Revenues, Expenses, and Changes in Fund Assets - Nonmajor Governmental Funds.

The adjustment of the beginning fund balance of the General Fund is to properly record cash inadvertently excluded from the total cash balance in the amount of \$51,566.

The adjustment of the beginning fund balance of the Capital Projects Fund is to record the transfer of certain capital projects to the Special Activities Fund in the amount of \$1,358,089.

The adjustment of the beginning fund balance of the Special Activities Fund is to record the transfer of certain capital projects from the Capital Projects Fund in the amount of \$1,358,089.

The adjustment of the beginning fund balance of the Automated Speed Enforcement Fund is to correct Machinery and Equipment inappropriately capitalized in the amount of \$36,383.

C. Contingent Liabilities

Washington Suburban Sanitary Commission (WSSC)

The City had contracted with WSSC to upgrade and enhance a portion of the Blue Plains Waste Water Treatment Plant. Through June 30, 2010, the City had paid \$36,900,050 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines, which were recorded in capital assets. The City's remaining contribution through the completion of the project is estimated to be \$12,823,091 for treatment capacity. The City intends to issue bonds to fund most of these costs.

The City has no direct ongoing equity interest in WSSC's assets and liabilities. Furthermore, the City has no significant influence over the management of the treatment facilities. Accordingly, the City does not record this contractual arrangement as a joint venture.

In addition to the capacity cost described above, WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by WSSC are recorded in the period during which the final bill is received by the City.

Litigation

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The total amount of pending lawsuits and claims not covered by insurance nor expressly provided in these statements will not have an adverse impact on the City's financial condition.

D. Other Post-employment Benefits

In addition to the pension benefits described in Note 3D, the City provides post-employment health benefits. The pension plan, under the direction of the Retirement Board, authorizes a retiree who elects to stay with the City's policy group to receive from the City the employer's share (i.e., the same level of premium support given to current employees) of medical insurance premiums up until age 65. In the event a retiree establishes residency outside the geographic area served by the City's group health insurance carriers, that person may purchase coverage and receive reimbursement from the City in an amount not to exceed the prevailing two-person coverage employer rate granted to current employees.

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2010

(3) Other Information (Continued)

D. Other Post-employment Benefits (Continued)

10 years of service, or (c) take early retirement from the City when their age plus service equals or exceeds 85. Eligible police retirees are those who have met the conditions stated above or who have attained their normal retirement date on the first day of the month coinciding with or following the earlier of (a) the employee's 60th birthday or (b) the later of the employee's 51st birthday and completion of 25 years of credited service. Previously, the City financed the post employment health insurance on a pay-as-you-go basis and expenditures for these insurance premiums were recorded in the General Fund. However, during fiscal year 2009, the City implemented GASB statements 43 and 45 and created a single-employer plan. The City established an irrevocable trust for administering the plan assets and paying health care costs on behalf of the participants. During fiscal year 2010, 13 retirees received post employment health benefits. Expenditures of \$69,820 were incurred and will be reimbursed by the trust. The City funded \$237,281 of the Annual Required Contribution (ARC) of \$1,425,000. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Funding Policy and Annual Pension Cost - Other Post Employment Benefits*

Year	Actuarial Unfunded Accrued Liability	Amortization of Actuarial Unfunded Accrued Liability	Normal Cost	Annual Required Contribution	ARC Funding	ARC Funding Ratio	Net OPEB Obligation (NOO)
2009	\$10,136,000	\$581,000	\$726,000	\$1,307,000	\$1,715,000	131%	(408,000)
2010	\$12,077,000	\$575,000	\$850,000	\$1,425,000	\$237,281	17%	\$1,187,719

*Implementation of GASB statements 43 and 45 took place in FY 2009, therefore, information is only available for one proceeding year.

The funded status of the plan as of April 1, 2010, the most recent actuarial date, is as follows:

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(A-B) Funded (unfunded) AAL (FAAL)/UAAL	(A / B) Funded Ratio	(C) Covered Payroll	((A - B) / C) FAAL / UAAL as a percentage of Covered Payroll
April 1 2010	1,574,000	8,801,000	(7,227,000)	17.9%	31,708,344	-22.8%

Actuarial Assumptions

Actuarial valuation Date:	9/1/2009
Actuarial cost method:	Project Unit Credit
Amortization method:	30 years using level percentage of pay
Asset valuation method:	Fair Value
Actuarial trend assumptions:	Medical and prescription drug trend rate applied to FY 2010 is 8.02%. This rate decreases by approximately 1% for FY 2011 thru FY 2013. The ultimate rate is 4.20%.
Interest assumption:	7%

E. Pension Plan

The City employees participate in one single-employer defined benefit pension plan and one defined contribution pension plan. The Retirement Board has the authority to establish and amend the benefit provisions of the pension plans including contribution requirements of the employees and employer.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(3) Other Information (Continued)

E. Pension Plan (Continued)

The financial statements of the City's pension plans are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions to each plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Principal Financial Group is the administrator of the single-employer defined benefit plan and defined contribution plan, which was established and is administered by the City. The Public Employee Retirement System (PERS) is considered part of the City reporting entity and is included in the City's financial reports as Pension Trust Funds. The plans do not issue separate financial statements.

The PERS has a defined benefit option and a defined contribution option, which are reported as separate Pension Trust Funds.

(1) Defined Benefit Option

This option is available to police employees, who participate 100 percent in the defined benefit option regardless of the date of employment, and non-police employees who were members of the plan as of April 14, 1986. All benefits vest after 10 years of credited service. An employee who retires at age 60 or a police employee with the completion of 25 years of credited service regardless of age is entitled to an annual retirement benefit, payable monthly for life (120 payments are guaranteed), for union employees in an amount equal to 1.8 percent of his/her final average salary, for each year of credited service, for administrative personnel in an amount equal to 1.8 percent before April 1, 1996, and 2.0 percent on or after April 1, 1996, of his/her final average salary, for each year of credited service and for police personnel in an amount equal to the lesser of (a)(1) 2.0 percent of his/her final average earnings multiplied by his/her years of credited service prior to April 1, 2004, plus (2) 2.25 percent of his/her final average earnings multiplied by his/her years of credited service on or after April 1, 2004, or (b) 60 percent of his/her final average earnings. Final average salary for administrative personnel and union employees is computed as the average earnings over three consecutive years within the last 10 years of service which produces the highest average and for police employees the average annual earnings is computed as the average annual earnings during the final 60 months of employment with the City.

Covered police and pre-1986 non-police employees are required by statute to contribute a certain percent (4.2 percent for union, 5.2 percent for administrative and 8.5 percent for police) of their salaries to the plan. If an employee leaves covered employment or dies before 10 years of credited service (based upon a graduated vesting schedule of 50 percent after five years, up to 100 percent after 10 years of credited service), accumulated employee contributions plus credited interest thereon at the rate of 6 percent and a portion of the City's contribution (City contributions are deemed to be 150 percent of the employees contributions plus credited interest) are paid to the employee or designated beneficiary.

This option also is available to full-time, permanent, non-police employees hired on or after April 15, 1986. These employees also are covered by the defined contribution option described below. Employees are required to participate from the date of employment. Union employees are covered for an annual benefit equal to 1 percent of average salary and administrative personnel are covered for an annual benefit equal to 1.0 percent before April 1, 1996, and 1.2 percent on or after April 1, 1996, of average salary (as previously defined) for each year of credited service. Administrative personnel are required by statute to contribute 1 percent of their salaries to the plan starting April 1, 1996. Employees are vested 100% after 10 years of service.

(2) Defined Contribution Option

Full-time, permanent non-police employees hired on or after April 15, 1986, are required to participate in this option from the date of employment. The plan allows contributions up to a maximum of 5 percent of earnings. The employee contributions are matched \$.50 by the City for each \$1 contributed by the employee. The employee is fully vested in his/her employee contributions and investment earnings thereon. The City's contribution for each employee (City's contributions and investment earnings thereon) is partially vested after three years and fully vested after seven years of credited service. Employees attaining the age of 60 become fully vested regardless of the number of years of credited service. The contributions actually made in FY 10 for plan members were \$1,277,877 and the City contributed \$638,924.

Membership in the defined benefit plan consisted of the following at April 1, 2009, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving payments	170
Terminated plan members vested but not yet receiving payments	184
Active plan members	541
Total	<u>895</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2010

(3) Other Information (Continued)

E. Pension Plan (Continued)

Combining Statement of Changes in Fiduciary Net Assets Pension Trust Funds June 30, 2010

	Defined Contributions Option	Defined Benefit Option	OPEB Trust	Total Pension Trust Funds
<u>Additions</u>				
Contributions				
Employer	\$ 638,924	\$ 2,511,752	\$ 237,281	\$ 3,387,957
Plan members	1,277,877	713,552	-	1,991,429
Total contributions	<u>\$ 1,916,801</u>	<u>\$ 3,225,304</u>	<u>\$ 237,281</u>	<u>\$ 5,379,386</u>
Investment Income				
Net appreciation in the fair value of plan investments	1,075,981	4,730,308	139,686	5,945,975
Interest and dividends	76,397	-	34,288	110,685
Total investment income	<u>\$ 1,152,378</u>	<u>\$ 4,730,308</u>	<u>\$ 173,974</u>	<u>\$ 6,056,660</u>
Total additions	<u>\$ 3,069,179</u>	<u>\$ 7,955,612</u>	<u>\$ 411,255</u>	<u>\$ 11,436,046</u>
<u>Deductions</u>				
Benefits	\$ -	\$ 2,816,612	\$ -	\$ 2,816,612
Refunds to terminated employees	635,517	-	-	635,517
Cash retirements	241,418	-	-	241,418
Deaths	6,215	-	-	6,215
Administrative expense	38,911	73,028	1,884	113,823
Total deductions	<u>\$ 922,061</u>	<u>\$ 2,889,640</u>	<u>\$ 1,884</u>	<u>\$ 3,813,585</u>
Net (decrease)/increase	2,147,118	5,065,972	409,371	7,622,461
Net assets - beginning	13,189,248	44,885,119	1,302,997	59,377,364
Net assets - ending	<u>\$ 15,336,366</u>	<u>\$ 49,951,091</u>	<u>\$ 1,712,368</u>	<u>\$ 66,999,825</u>

Combining Statement of Fiduciary Net Assets Pension Trust Funds June 30, 2010

	Defined Contributions Option	Defined Benefit Option	OPEB Trust	Total Pension Trust Funds
Assets				
Investments at fair value - equity in pooled pension trust	<u>\$ 15,336,366</u>	<u>\$ 49,951,091</u>	<u>\$ 1,712,368</u>	<u>\$ 66,999,825</u>
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets				
Available for plan benefits	<u>\$ 15,336,366</u>	<u>\$ 49,951,091</u>	<u>\$ 1,712,368</u>	<u>\$ 66,999,825</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements
June 30, 2010

(3) Other Information (Continued)

E. Pension Plan (Continued)

Funding Policy and Annual Pension Cost - Defined Benefit Option

The funded status of the plan as of April 1, 2009 the most recent actuarial date, is as follows:

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(A-B) Funded (unfunded) AAL (FAAL)/UAAL	(A / B) Funded Ratio	(C) Covered Payroll	((A - B) / C) FAAL / UAAL as a percentage of Covered Payroll
April 1 2009	61,698,621	72,290,941	(10,592,320)	85.3%	31,708,344	-33.4%

The schedules of funding progress presented as required supplementary information (RSI) following the notes to financial statements, present multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the AALs for benefits.

The employee contribution requirements for the plan are set by the Retirement Board. The City's annual contribution is based on annual actuarial valuations. The City of Rockville bears the cost of administering the pension plan. In Plan Year 2009, the actuarial valuation ARC was \$2,511,752 and the City contributed \$2,511,752. The ARC for plan year 2009 was paid in fiscal year 2010.

Contribution rates	
City	6.21% -6.30%
Plan members	0.00% - 8.50%
Annual pension cost	\$2,511,752
Contributions made	\$2,511,752
Actuarial valuation date	4/1/2009
Actuarial cost method	Entry age normal
Amortization method	Closed
Amortization period	20 years
Asset valuation method	
Fixed income assets	Contract basis
United States Stock	Four years smoothed market
Actuarial assumptions	
Investment rate of return	6.50%
Projected salary increases	3.88% - 8.10%
includes inflation at	3.00%
Cost of living adjustment	0.00%

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2010

(4) New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2010 that have effective dates that will impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* is effective after June 10, 2010. This statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the reserved component of fund balance will be replaced by restricted to enhance the information reported in the government-wide statements and information in the governmental fund financial statements.
- GASB Statement No. 59, *Financial Instruments Omnibus* is effective for the City beginning after June 15, 2010. The Statement will improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments

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APPENDIX B

Forms of Legal Opinions

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December 22, 2010

Mayor and Council of Rockville
Rockville, Maryland

Ladies and Gentlemen:

We have examined certified copies of the legal proceedings and other proofs submitted relative to the issuance and sale by Mayor and Council of Rockville, Maryland (the “Issuer”) of \$27,370,000 General Obligation Bonds, Series 2010, dated December 22, 2010 (the “Obligations”). The Obligations bear interest, mature and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Issuer and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Obligations.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

Based on the foregoing, it is our opinion that, under existing law:

1. The Obligations are valid and binding general obligations of the Issuer, and all the real and tangible personal property subject to assessment for unlimited municipal taxation within the corporate limits of the City of Rockville is subject to the levy of an ad valorem tax, without limitation of rate or amount, to pay the Obligations and the interest thereon.

2. Under existing law of the State of Maryland, the interest on the Obligations and profit realized from the sale or exchange of the Obligations is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of

Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Obligations or the interest thereon.

3. Under existing law, the interest on the Obligations (i) is excludable from gross income for Federal income tax purposes, and (ii) is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations and is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations.

In rendering the opinion expressed above in this paragraph (3), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the Issuer (the “Tax Agreement”), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and the income tax regulations issued thereunder (the “Regulations”) that must be satisfied subsequent to the issuance of the Obligations in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Obligations) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Obligations from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Obligations.

4. The Obligations are “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code.

Other than as set forth in the preceding paragraphs 2, 3 and 4, we express no opinion regarding the federal or state income tax consequences arising with respect to the Obligations.

It is to be understood that the rights of the owners of the Obligations and the enforceability of the Obligations may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally and by equitable principles, whether considered at law or in equity.

Respectfully submitted,

January 5, 2011

Mayor and Council of Rockville
Rockville, Maryland

Ladies and Gentlemen:

We have examined certified copies of the legal proceedings and other proofs submitted relative to the issuance and sale by Mayor and Council of Rockville, Maryland (the “Issuer”) of \$3,040,000 General Obligation Refunding Bonds, Series 2011, dated January 5, 2011 (the “Obligations”). The Obligations bear interest, mature and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Issuer and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Obligations.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

Based on the foregoing, it is our opinion that, under existing law:

1. The Obligations are valid and binding general obligations of the Issuer, and all the real and tangible personal property subject to assessment for unlimited municipal taxation within the corporate limits of the City of Rockville is subject to the levy of an ad valorem tax, without limitation of rate or amount, to pay the Obligations and the interest thereon.

2. Under existing law of the State of Maryland, the interest on the Obligations and profit realized from the sale or exchange of the Obligations is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of

Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Obligations or the interest thereon.

3. Under existing law, the interest on the Obligations is excludable from gross income for Federal income tax purposes, and the interest on the Obligations is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest may be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations.

In rendering the opinion expressed above in this paragraph (3), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the Issuer (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Obligations in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Obligations) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Obligations from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Obligations.

4. The Obligations are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Other than as set forth in the preceding paragraphs 2, 3 and 4, we express no opinion regarding the federal or state income tax consequences arising with respect to the Obligations.

It is to be understood that the rights of the owners of the Obligations and the enforceability of the Obligations may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Respectfully submitted,

APPENDIX C

Forms of the Continuing Disclosure Agreements

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of December __, 2010, is executed and delivered by the Mayor and Council of Rockville, Maryland (the “Issuer”) in connection with the issuance and sale of the Issuer’s \$27,370,000 General Obligation Bonds, Series 2010 and \$3,040,000 General Obligation Refunding Bonds, Series 2011 (collectively, the “Obligations”). Capitalized terms used in this Agreement shall have the respective meanings specified above or in Article IV hereof.

ARTICLE I

The Undertaking

Section 1.1. Purpose. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The Issuer shall provide Annual Financial Information with respect to each Fiscal Year of the Issuer, commencing with Fiscal Year ending June 30, 2011, by no later than five months after the end of the respective Fiscal Year, to MSRB.

(b) The Issuer shall provide, in a timely manner not in excess of ten business days after the occurrence of the event, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to MSRB.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof because not available, the Issuer shall provide Audited Financial Statements, when and if available, to MSRB.

Section 1.4. Notice Events. (a) If a Notice Event occurs, the Issuer shall provide, in a timely manner not in excess of ten business days after the occurrence of the event, notice of such Notice Event to MSRB.

(b) Any such notice of a defeasance of Obligations shall state whether the Obligations have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) Each Notice Event notice relating to the Obligations shall include the CUSIP numbers of the Obligations to which such Notice Event notice relates or, if the Notice Event notice relates to all bond issues of the Issuer including the Obligations, such Notice Event notice need only include the CUSIP number of the Issuer.

Section 1.5. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Issuer under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Agreement. If the Issuer chooses to include any information in any Annual Financial Information or Notice Event notice in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

Section 1.7. Previous Non-Compliance. The Issuer represents that, except as disclosed in the Official Statement, in the previous five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information (but not Notice Event notices) by specific reference to documents (i) available to the public on the MSRB Internet Web site or (ii) filed with the SEC.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. Notice Events. Each notice of a Notice Event hereunder shall be captioned "Notice Event" and shall prominently state the title, date and CUSIP numbers of the Obligations.

Section 2.4 Filing with Certain Dissemination Agents or Conduits. The Issuer may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the Issuer under this Agreement, and revoke or modify any such designation.

Section 2.5. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 2.6. Fiscal Year. (a) The Issuer's current Fiscal Year begins July 1 and ends on June 30, and the Issuer shall promptly notify MSRB of each change in its Fiscal Year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any Fiscal Year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Obligations.

(b) The Issuer's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Obligations.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Obligations, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to MSRB.

Section 3.2. Amendment. (a) This Agreement may be amended by the Issuer, without the consent of the holders of the Obligations if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments to or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the Issuer shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer, to the effect that the amendment does not materially impair the interests of the holders of the Obligations, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to MSRB.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Obligations, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Issuer shall have received an opinion of Counsel to the effect that performance by the Issuer under this Agreement as so amended will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to MSRB.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Issuer in preparing its financial statements, the Annual Financial Information for the Fiscal Year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles

and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3 Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Obligations, except that beneficial owners of Obligations shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section.

(b) The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable by any holder of outstanding Obligations. The holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Obligations pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Obligations for purposes of this subsection (b).

(c) Any failure by the Issuer to perform in accordance with this Agreement shall not constitute a default with respect to the Obligations.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State of Maryland, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State of Maryland; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively:

A. (i) Audited Financial Statements, if available, or Unaudited Financial Statements for the immediately preceding Fiscal Year; and

(ii) the Issuer's Comprehensive Annual Financial Report, if any is prepared, for the immediately preceding Fiscal Year, and if not prepared, such annual financial information as the Issuer is advised by disclosure counsel or bond counsel would satisfy the definition of "annual financial information" in the Rule; and

B. the following information provided in the Official Statement prepared and delivered by the City with respect to the Obligations: the Tables listed immediately below utilizing the same accounting standards as were used in preparing such information for the Official Statement and updated as of a date no earlier than the last day of the immediately

preceding fiscal year.

- Historical Summary of Bonded Indebtedness (Table 15)
- Five Year Debt Statistics (Table 16)
- General Obligation Debt Outstanding by Issue (Table 17)
- General Obligation Debt Schedule of Annual Maturities (Table 18)
- General Obligation Debt Issuer Net Requirement Analysis (Table 19)
- Operating Lease Annual Maturity Schedule (Table 20)
- Overlapping Debt (Table 22)
- General Fund Statement of Revenues and Expenditures and Changes in the General Fund (Table 24)
- Assessed Value of All Taxable Property by Class (Table 25)
- Property Tax Levies and Collections (Table 26)
- Property Tax Rates Overlapping Governments (Table 27)
- Principal Taxpayers (Table 28)

C. the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement.

Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual basic financial statements, if any, of the Issuer, audited by such auditor as selected by the Issuer. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Issuer may from time to time, if required by federal or Maryland legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific federal or Maryland law or regulation describing such accounting principles, or other description thereof.

(3) “Counsel” means nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(6) “Notice Event” means any of the following events with respect to the Obligations, whether relating to the Issuer or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material; and
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(7) “Official Statement” means the Official Statement dated December __, 2010, of the Issuer relating to the Obligations.

(8) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(9) “SEC” means the United States Securities and Exchange Commission.

(10) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(11) “Underwriters” means the original underwriter(s) of any of the Obligations required to comply with the Rule in connection with the offering or sale of the Obligations.

MAYOR AND COUNCIL OF ROCKVILLE

By:

Gavin Cohen
Chief Financial Officer